CORPORATE GOVERNANCE

WHAT'S CHANGED, WHAT REMAINS

PHOTO CORBIS

High standards of corporate governance play an important role in upholding Singapore's reputation as a well-established and secure business and financial hub. In keeping with this, as well as developments in the business and financial environment, the regulatory landscape in Singapore witnessed several key changes in 2012. These include changes to the Singapore Exchange (SGX) Listing Rules and the revised Code of Corporate Governance (the Code). The Companies Act (the Act) was also reviewed, with amendments to the Act expected to be implemented this year.

As we start the year, it is opportune to take an overall look at what the key trends in corporate governance were in 2012 and their potential implications for our accountants in business and for auditors.

KEY TRENDS IN 2012

"In our view, three key corporate governance trends were seen in Singapore last year. They are an enhanced focus on risk management; clearer definition and accountability of Directors' duties and responsibilities, and greater transparency and Directors' independence. These in part arose from, as well as are reinforced by, the current environment of economic uncertainty and a greater focus on good corporate governance," said R Dhinakaran, Chairman of ICPAS Corporate Governance Committee and Managing Director, Jay Gee Group. Mr Dhinakaran is also Vice President, ICPAS.

SGX LISTING RULE 1207(10)

There is an enhanced focus on risk management. The SGX Listing Rule 1207(10), which is applicable to listed companies on the SGX, sets out a requirement for the Board to opine, with the concurrence of the Audit Committee, on the adequacy of their organisations' internal controls in addressing financial, operational and compliance risks. This places greater responsibility on Boards and encourages them to take greater interest in the internal controls of their organisations. This is in line with the findings of the recent ICPAS CFO Survey (*highlights in pages 24 to 26*), where 90% of respondent CFOs indicated risk management as a very important or critical work responsibility. The above highlight the increasing concern about and focus on risk management across all organisations.

ROBUST AND HIGH STANDARDS OF CORPORATE GOVERNANCE WILL SERVE TO ENHANCE SINGAPORE'S REPUTATION AS A LEADING AND TRUSTED FINANCIAL CENTRE.

REVISED CODE OF CORPORATE GOVERNANCE

The recent changes in Singapore's regulatory landscape, such as the revised Code, also point to higher standards of governance, with clearer definition and accountability of Directors' duties and responsibilities. For example, the Code makes clear that risk governance is the ultimate responsibility of the Board and not just the Audit or Risk Committee, or even the company's senior management.

The definition of Director independence in the Code has also been tightened. For example, the independence of any Director who has served on a Board beyond nine years from the date of his first appointment should be subjected to a review. To further enhance objective decision-making and judgement at the Board level, there is now a need for independent Directors to constitute half the Board, instead of one-third, under certain circumstances, such as when the Chair and CEO are the same person. This may lead to a more competitive hunt for competent independent Directors.

REVISIONS TO THE COMPANIES ACT

Following the review of recommended revisions to the Companies Act, the Ministry of Finance will seek public feedback on the draft amendment bill to the Act this year. One recommended change will allow investors who are beneficial owners of shares held indirectly via nominee or custodian institutions, such as the CPF investors, to exercise their voting rights via a new multiple-proxies approach. This will likely allow more investors to participate in shareholders' voting through a show of hands. Shareholder meetings in future may see a rise in investor participation, queries or tabling of resolutions that may need more financial information. Further, an auditor of a public interest company or its subsidiary will need to seek the consent of Accounting and Corporate Regulatory Authority (ACRA) and publicly disclose the reason for resigning prematurely. While enhancing transparency, this will also impose on auditors to be open on the rationale and be clear in their documentation when doing so.

SIGNIFICANCE OF CHANGES

The changes to the regulatory landscape should be viewed as positive steps towards better governance, despite a clamour from some for even greater tightening, for example, in the revised Code. The revisions will keep Singapore's standards abreast of international practices. Robust and high standards of corporate governance will serve to enhance Singapore's reputation as a leading and trusted financial centre.

In the Asian Corporate Governance Association's (ACGA) scoring of corporate governance in Asia, Singapore remained at the top in 2012, followed by Hong Kong and Thailand. ACGA's reasons for Singapore edging out Hong Kong were the increased focus by the government on reforms in corporate governance, enhanced regulations, and regulatory enforcement, as well as growing retail investor engagement and setting of the benchmark for the independent regulation of auditors.

Going forward, as the market becomes more mature and educated about shareholder rights, both investors and regulators will expect companies to adopt stronger corporate governance practices. With the uncertain economic environment, investors will also be increasingly concerned about the risk management practices and capabilities of listed companies, especially those operating in multiple jurisdictions. At the same time, companies and Boards would also be concerned with improving the risk management capabilities and transparency in communication with shareholders. Overall, the changes will help companies become more resilient and better able to cope with the economic challenges ahead.

> "ICPAS WILL CONTINUE TO ENHANCE THE PROFESSIONAL DEVELOPMENT OF OUR MEMBERS AND PROVIDE THEM WITH MORE PLATFORMS TO FOSTER SHARING OF BEST PRACTICES..."
>
> **Mr Lee Fook Chiew**
> CEO, ICPAS

POTENTIAL IMPLICATIONS

What are the implications of these trends for our accountants, both in business and practice? The fundamental role of accountants as good financial stewards with high ethics and integrity has not changed. However, based on the recent ICPAS CFO Survey, CFOs are now expected to become effective key strategic partners to their CEOs as well. Strategic business planning and risk management have emerged as the top two responsibilities of CFOs, with correspondingly more time spent on these areas. Understanding best practices in corporate governance and understanding the demands of stakeholders in these aspects will enable our CFOs and senior accountants to perform better in these two enhanced responsibilities.

"On the auditors' front, the role of the auditor in his conduct of an external audit, while being enhanced as a result of a series of revised International Standards on Auditing recently, has not changed. From the external audit report perspective nevertheless, the International Auditing and Assurance Standards Board (IAASB) released a proposal for improving the auditor's report, covering the direction which future reporting should take," said Dr Ernest Kan, President, ICPAS. The final revised standards are expected in June 2014. With Singapore's auditing and assurance standards closely following international standards, our auditors will inevitably be impacted by these changes.

From the Institute's perspective, changing the auditor's report alone will not be sufficient to address stakeholders' needs and expectations. A more holistic approach which brings together improvements in auditor reporting and also corporate governance and financial reporting would better bridge investors' expectations while encouraging auditors and preparers to produce materials of greater relevance and quality.

SUPPORTING OUR MEMBERS

With increasing public expectations and demands on the profession, continuous professional education (CPE) for the accounting and finance professionals to continually upgrade their knowledge and skills will be crucial for our members to remain relevant and competent in not only the accounting profession but also the rapidly-changing and competitive business environment. The Institute will support our members through its suite of corporate governance and ethics courses, organise thought leadership forums and roundtable discussions, as well as produce relevant thought leadership materials on corporate governance.

"We view the increased emphasis on corporate governance in positive light. As the national accountancy body, ICPAS will continue to enhance the professional development of our members and provide them with more platforms to foster sharing of best practices so that they will be better equipped to address and deal with issues on corporate governance," said Lee Fook Chiew, Chief Executive Officer, ICPAS. CPA

By Chan Sze Yee, Head, and Perrine Oh, Manager, ICPAS Research.
First published in *The Business Times* on 21 January 2013.