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# **A STUDY ON THE PROFILE OF AUDIT COMMITTEES OF LISTED COMPANIES IN SINGAPORE 2011**

# A STUDY ON THE PROFILE OF AUDIT COMMITTEES OF LISTED COMPANIES IN SINGAPORE 2011 WAS COMMISSIONED BY THE CORPORATE GOVERNANCE COMMITTEE OF THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF SINGAPORE

Initiated by the Corporate Governance Committee of the Institute of Certified Public Accountants of Singapore (ICPAS), this research project aims to provide an understanding of the compliance of Audit Committees (ACs) of Singapore listed companies with respect to the requirements under the Singapore Companies Act and the Code of Corporate Governance, as well as present a general description of the state of the ACs of listed companies in Singapore.

The Corporate Governance Committee and the Council of ICPAS provided appropriate input and advice on the research findings.

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The Corporate Governance Committee is a strong advocate for best corporate governance practices. It achieves its objective by taking a proactive role in the development, implementation and promotion of sound corporate governance by drawing on the wealth of knowledge by its engagement with auditors, accountants, consultants and business people working in different fields of expertise.

Its terms of reference include reviewing matters relating to corporate governance, conducting relevant research and consultation on corporate governance in a proactive manner, drafting of consultation papers, legislative and regulatory proposals, and guidelines to members in the form of study reports, proposing changes to the Listing Rules, the Code of Corporate Governance and other related laws and regulations as appropriate, and exchanging views with government regulatory bodies, professional bodies and relevant organisations on matters relating to corporate governance.

The Corporate Governance Committee 2011/2012 consists of:

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# THE PROFILE OF AUDIT COMMITTEES OF LISTED COMPANIES IN SINGAPORE 2011

## EXECUTIVE SUMMARY

This survey is a follow up study of the Study on the Profile of Audit Committees (ACs) of Listed Companies in Singapore, published in 2009 by the Institute of Certified Public Accountants of Singapore (ICPAS). It provides an understanding of the continuing compliance of ACs of listed companies in Singapore with respect to the Singapore Companies Act and the Code of Corporate Governance (CG Code). In addition, it provides a comparative view of the changes that have occurred in the state of the ACs since the last survey.

The survey covered the annual reports of a total of 724 companies listed on the Singapore Exchange (including 123 companies on the Catalist), with financial periods ending between 1 January 2010 to 31 December 2010. It covered a total of 1,543 individuals who were members of the ACs of these companies, 460 of whom were chairmen of the ACs and 1,258 of whom were members of the ACs. 70.2% of the chairmen and 81.6% of the members sat on only one AC. 230 out of these 1,543 (14.9%) individual members of ACs were members of ICPAS. In addition, the chairmen of the ACs of 278 of the 724 (38.4%) listed companies were members of ICPAS. Although the membership of ACs was predominantly male (94.3%), the current figure is a slight improvement from 2009, when 95.2% of the membership of ACs was male.

The survey found that 96.9% of the ACs met at least twice in 2010 and with the requirement of the quarterly reporting for listed companies except for companies which are exempted under SGX Listing Rule 705(4), 71.8% of the ACs met at least four times in 2010. With regards to the board size of the ACs, the median number of members in the AC was three, which was the minimum membership size suggested by the CG Code. In fact, only one company had a six-member AC. There is no difference between firms of different market capitalisation and those listed on the Catalist in terms of average or median size of the ACs.

With respect to board independence of ACs, 99.6% of the chairmen and 96.1% of the members of ACs comprised independent or non-executive directors of the companies. Among the chairmen and members of the ACs, 19 of them had alternate directors.<sup>1</sup> The survey found that 75.8% of chairmen and members of ACs had at least a bachelor's degree, and 22.5% of them had formal education in accounting or finance. A higher percentage of 41.8% of chairmen had formal education in accounting or finance.

The survey also found that, on average, 17.1% of the members of ACs had been with the company for one year or less. In addition, 51.6% of the members of ACs had been associated with their companies for five years or less. It is encouraging to note that 97.7% of chairmen who had been with the company for one year or less were financially-trained. This suggests that listed companies are consciously choosing financially-trained individuals to be chairmen of their ACs.

In summary, the survey found that the Companies Act and the CG Code are effective in bringing forth structural changes to the composition of ACs of listed companies in Singapore as most companies had complied with the corporate governance guidelines. Nonetheless, compared to the survey findings in 2009, there seems to be little progress made in the 2011 survey except for slightly higher average number of AC meetings (3.8 meetings for 2011 versus 3.6 meetings for 2009) and slight improvement in the female ratio of AC members (5.7% female for 2011 versus 4.8% for 2009).

<sup>1</sup> "An alternate director is generally a person who is appointed to attend Board meetings on behalf of a director of a company when the said principal director is otherwise unable to attend. For Singapore companies, Section 4(1) of the Companies Act defines a "director" to include alternate directors and they are therefore full directors under the law." (Singapore Institute of Directors, Statement of Good Practice SGP No. 11/2010 – Appointing Alternate Directors)

# 1. INTRODUCTION

This survey was commissioned by the Institute of Certified Public Accountants of Singapore (ICPAS) as part of the 2010 initiatives of the Corporate Governance Committee of the Institute to obtain information on the application of the Singapore Companies Act, the Code of Corporate Governance (CG Code), and the Listing Rules of Singapore Exchange, on Audit Committees (ACs) for listed companies in Singapore since the last ACs survey, published in 2009 by ICPAS. It provides an understanding of the compliance of ACs with the various codes, a general description of the state of the ACs of listed companies in Singapore and a comparative analysis of developments of ACs since the last survey.

## 2. OBJECTIVES OF THE SURVEY

This survey has six major objectives. They are:

- a. Assessment of the composition of the ACs;
- b. Assessment of the qualifications of AC members;
- c. Assessment of the experience of AC members;
- d. Assessment of the extent of compliance of ACs with the CG Code;
- e. Assessment of any other issues deemed pertinent to the research topic; and
- f. Comparative analysis of the findings with the 2009 survey.

## 3. METHODOLOGY OF THE SURVEY

The methodology used in this study was to survey all the companies which had a listing on the Singapore Exchange instead of using the usual representative sample approach. These included companies which had a secondary listing<sup>2</sup> but only where information about their ACs were available. The Singapore Exchange website provided a list of 28 companies with secondary listings as at 30 April 2010 (see Annex A), of which 8 were included in this survey. From the total list of listed companies, 35 companies were removed from the population either because their 2010 annual reports were not available or they were newly listed companies or companies undergoing delisting. Based on the above selection criteria, a total of 724 companies were selected for this survey.

The survey covered annual reports which were published for financial periods ending between 1 January 2010 and 31 December 2010.<sup>3</sup> All the companies that were listed on the Mainboard and Catalist which had a financial year end within this range and for which a market capitalisation value was available on 31 December 2010 using Datastream, had been included in the survey.

The companies had been classified into three groups, based on their market capitalisation, as follows:

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

The information for each company in the survey was obtained from the company's annual report, website and public documents pertaining to the description of its AC and members. Table 1 provides a description of the number of companies used in this survey. The bulk of the listed companies (62.6%) had a market capitalisation of less than S\$500 million each.

**Table 1: Sample Size of the Survey**

	2011 Survey	2009 Survey
Companies with Market Cap of S\$500m and above ( $\geq$ S\$500m)	148 (20.4%)	101 (15.0%)
Companies with Market Cap less than S\$500m ( $<$ S\$500m)	453 (62.6%)	439 (65.0%)
Companies listed on the Catalist (Catalist)	123 (17.0%)	135 (20.0%)
<b>TOTAL</b>	<b>724 (100.0%)</b>	<b>675 (100.0%)</b>
<b>Number of Financial Institutions</b>	<b>25 (3.5%)</b>	<b>25 (3.7%)</b>

The survey covered 724 listed companies with a total of 1,543 unique individuals in 2,353 director roles and serving as chairmen and/or members in the ACs. Specifically, for the 724 companies, there were only 460 individuals who were chairmen of the ACs and 1,258 individuals serving as members of the ACs.<sup>4</sup> In addition, of the 1,543 individuals who were on the ACs, 36.5% (563) of them were new members of the ACs, while of the 460 chairmen of the ACs, 21.7% (100) of them were new chairmen as compared to the listing of chairmen in the 2009 survey. Finally, of the 1,258 members of the ACs, 38.5% (484) of them were new members as compared to the listing of members of ACs in the 2009 survey. This suggests a sizeable proportion of turnover in the chairmen and members of the ACs.

<sup>2</sup> Companies with secondary listings are generally granted exemption from following the Singapore Exchange's listing requirements.

<sup>3</sup> The period covered by the 2009 survey was between 30 June 2007 and 30 June 2008, and there were 675 companies in the survey.

<sup>4</sup> The total number of individuals who were chairmen (460) or members (1,258) of ACs does not add up to the 1,543 unique individuals serving as chairmen and/or members in the ACs, because some chairmen also serve as members in other ACs.

## 4. LEGISLATION AND CODE OF BEST PRACTICES ON AUDIT COMMITTEES

In Singapore, there are five major sources of regulations or prescription of best practices governing ACs for companies. There was only one update in the regulations or prescription of best practices since the last survey, namely, *"The Guidelines on Corporate Governance for Banks, Financial Holding Companies and Direct Insurers which are Incorporated in Singapore (2010)"* by the Monetary Authority of Singapore. The five major sources of regulations or prescription of best practices are:

- a. The Companies Act (Chapter 50), Section 201B [hereafter called the Companies Act];
- b. The Singapore Code of Corporate Governance (2005) [hereafter called the CG Code];
- c. The Guidelines on Corporate Governance for Banks, Financial Holding Companies and Direct Insurers which are Incorporated in Singapore (2010) by the Monetary Authority of Singapore [hereafter called the GCG-Banks];
- d. The Singapore Exchange Listing Rules; and
- e. Guidebook for Audit Committees in Singapore (2008) by the Audit Committee Guidance Committee [hereafter called the GAC].

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

- a. It is a legal requirement for all listed companies to have an AC;<sup>5</sup>
- b. The AC must have a minimum of three members;<sup>6</sup>
- c. The chairman of the AC must be an independent director;<sup>7</sup>
- d. The members of 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;<sup>8</sup>
- e. At least two members of the AC must have accounting or related financial management expertise or experience (hereafter called "financially-trained" individuals);<sup>9</sup>
- f. Specification of the roles and responsibilities of the AC;<sup>10</sup>
- g. Disclosure of names of members of the AC and their activities in the company's annual report;<sup>11</sup> and
- h. Tenure of the AC.<sup>12</sup>

## 5. SURVEY FINDINGS

### 5.1 General Descriptions

All the 724 listed companies in the survey had an AC. All the companies followed the CG Code and disclosed the names of their AC members. Table 2 shows the distribution of the number of AC meetings held during the year. The majority of the companies disclosed the number of AC meetings held during the fiscal year while four companies did not do so. Three companies, of which one was a newly-listed company, did not have any AC meetings during the year. Given the introduction of quarterly reporting, 71.8% of the companies had at least four AC meetings during the year as compared to 54.5% for the 2009 survey.<sup>13</sup> 90.5% of companies with market capitalisation of S\$500 million and above had at least four AC meetings during the year, in comparison to 74.8% and 38.2% for companies which had market capitalisation of less than S\$500 million and those which were Catalist-listed respectively. Clearly, the ACs in companies which were listed on Catalist met less frequently compared to the rest of the companies. Interestingly, 153 out of the 200 companies which had less than four AC meetings in the 2011 survey had market capitalisation of less than S\$75 million as at 31 December 2010. Of these 153 companies with less than S\$75 million in market capitalisation, only seven of them held less than two AC meetings although SGX Listing Rule 705(4) requires them to produce half-yearly reports.

<sup>5</sup> Companies Act (Chapter 50), Section 201B(1).

<sup>6</sup> Companies Act (Chapter 50), Section 201B(2); CG Code (2005, para. 11.1); GAC (2008, para. 1.2.1)

<sup>7</sup> CG Code (2005, para. 11.1) and GAC (2008, para. 1.2.9). The Companies Act requires the chairman to be a non-executive director or employee of the company or any related corporation, which implicitly assumes that he/she is independent (Section 201B(3)).

<sup>8</sup> Companies Act (Chapter 50), Section 201B(2). The Companies Act is less stringent than the CG Code (2005, para. 11.1) which requires "The AC should comprise at least three directors, all non-executive, the majority of whom, including the Chairman, should be independent".

<sup>9</sup> CG Code (2005, para. 11.2) and GAC (2008, para. 1.2.4).

<sup>10</sup> Companies Act (Chapter 50), Section 201B(5); The CG Code (2005, paras. 11.4-11.7); GAC (2008, para. 1.2.12).

<sup>11</sup> CG Code (2005, para. 11.8).

<sup>12</sup> GAC (2008, paras. 1.2.15-16).

<sup>13</sup> Notwithstanding SGX Listing Rule 705(4) where "An issuer whose market capitalisation does not exceed S\$75 million must announce its first half financial statements (as set out in Appendix 7D) immediately after the figures are available, but in any event not later than 45 days after the relevant financial period."

**Table 2: Distribution of the Frequency of AC Meetings**

Number of AC Meetings	2011 Survey	2009 Survey
0	3 (0.4%)	3 (0.4%)
1	15 (2.1%)	20 (3.0%)
2	123 (17.0%)	168 (24.9%)
3	59 (8.1%)	104 (15.4%)
4	385 (53.2%)	263 (39.0%)
5	90 (12.4%)	57 (8.4%)
6	27 (3.7%)	29 (4.3%)
7 to 12	18 (2.5%)	19 (2.8%)
No Disclosure	4 (0.6%)	12 (1.8%)
<b>TOTAL</b>	<b>724 (100.0%)</b>	<b>675 (100.0%)</b>

Statistics	≥S\$500m		<S\$500m		Catalist		Total	
	No	%	No	%	No	%	No	%
0	1	0.7%	1	0.2%	1	0.8%	3	0.4%
1	3	2.0%	9	2.0%	3	2.5%	15	2.1%
2	9	6.1%	67	14.8%	47	38.2%	123	17.0%
3	1	0.7%	34	7.5%	24	19.5%	59	8.1%
4 & above	134	90.5%	339	74.8%	47	38.2%	520	71.8%
No Disclosure	0	0.0%	3	0.7%	1	0.8%	4	0.6%
<b>TOTAL</b>	<b>148</b>	<b>100.0%</b>	<b>453</b>	<b>100.0%</b>	<b>123</b>	<b>100.0%</b>	<b>724</b>	<b>100.0%</b>

Table 3 shows the statistics of the frequency of the meetings of the ACs. There was a slight increase in the average number of AC meetings for the companies surveyed for 2011 as compared to 2009 (3.8 versus 3.6 for 2011 and 2009 respectively). The increase was mainly from companies with market capitalisation of less than S\$500 million. Note that the median number of AC meetings for non-Catalist firms was four while Catalist-listed firms had a median of three AC meetings.

Table 3 also provides the statistics for non-financial and financial companies. On an overall basis, both non-financial and financial companies had increased the average number of AC meetings, namely 3.8 (4.3) versus 3.5 (4.2) meetings for non-financial companies (financial companies) for the 2011 and 2009 survey respectively. The median number of AC meetings, four, was exactly the same for both non-financial and financial companies. The minimum number of AC meetings by any financial company was two.

**Table 3: Statistics on the Frequency of AC Meetings**

Statistics	≥S\$500m		<S\$500m		Catalist		Total	
	2011 Survey	2009 Survey	2011 Survey	2009 Survey	2011 Survey	2009 Survey	2011 Survey	2009 Survey
Mean	4.2	4.6	3.8	3.5	3.0	3.0	3.8	3.6
Median	4.0	4.0	4.0	4.0	3.0	3.0	4.0	4.0
Minimum	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Maximum	8.0	12.0	7.0	12.0	7.0	8.0	8.0	12.0

Statistics	Non-Financial Companies		Financial Companies		Total	
	2011 Survey	2009 Survey	2011 Survey	2009 Survey	2011 Survey	2009 Survey
Mean	3.8	3.5	4.3	4.2	3.8	3.6
Median	4.0	4.0	4.0	4.0	4.0	4.0
Minimum	0.0	0.0	2.0	2.0	0.0	0.0
Maximum	8.0	12.0	6.0	10.0	8.0	12.0



The distribution of the AC chairmanship and membership of the individual members is presented in Table 4. The sample of 724 companies had ACs where the total chairmanship and membership were made up of 460 and 1,258 individuals respectively. 148 (32.2%) of the 460 chairmen of the ACs were members of ICPAS. In addition, 141 (11.2%) of the members of the ACs were members of ICPAS. The highest number of chairmanship for ACs held by any individual was nine. The highest number of membership of ACs held by any individual was seven. A significant majority of the individuals held only one chairmanship position (70.2%) or sat on one AC (81.6%).

**Table 4: Distribution of Chairmanship and Membership of ACs Amongst Individuals**

Chairmanship of AC	2011 Survey	2009 Survey	Members of AC	2011 Survey	2009 Survey
1	323 (70.2%)	313 (72.1%)	1	1,026 (81.6%)	1,063 (75.8%)
2	72 (15.7%)	63 (14.5%)	2	153 (12.2%)	166 (11.9%)
3	27 (5.9%)	28 (6.5%)	3	43 (3.4%)	69 (4.9%)
4	22 (4.8%)	13 (3.0%)	4	22 (1.7%)	49 (3.5%)
5	12 (2.6%)	8 (1.8%)	5	6 (0.5%)	17 (1.2%)
6	2 (0.4%)	5 (1.2%)	6	5 (0.4%)	17 (1.2%)
7	1 (0.2%)	3 (0.7%)	7	3 (0.2%)	8 (0.6%)
8	0 (0.0%)	1 (0.2%)	8	0 (0.0%)	4 (0.3%)
9	1 (0.2%)	0 (0.0%)	9	0 (0.0%)	7 (0.5%)
10	0 (0.0%)	0 (0.0%)	10	0 (0.0%)	2 (0.1%)
<b>TOTAL</b>	<b>460 (100.0%)</b>	<b>434 (100.0%)</b>	<b>TOTAL</b>	<b>1,258 (100.0%)</b>	<b>1,402 (100.0%)</b>

Table 5 shows the breakdown of the chairmanship and membership of ACs according to gender on an overall basis (inclusive of multiple memberships). With respect to the members of the ACs in the 2011 survey, 94.3% of them were male while the rest were female. This clearly indicates that ACs are generally still dominated by males although there is a slight improvement in the ratio of female to male AC members compared to the last survey in 2009, as the proportion of females had increased from 4.8% to 5.7%.

**Table 5: Distribution of AC Memberships According to Gender**

	Chairmen		Members		Total	
	2011 Survey	2009 Survey	2011 Survey	2009 Survey	2011 Survey	2009 Survey
Male	702 (97.0%)	659 (97.8%)	1,519 (93.2%)	1,393 (94.0%)	2,220 (94.3%)	2,052 (95.2%)
Female	22 (3.0%)	15 (2.2%)	111 (6.8%)	89 (6.0%)	134 (5.7%)	104 (4.8%)
<b>TOTAL</b>	<b>724<sup>14</sup> (100.0%)</b>	<b>674 (100.0%)</b>	<b>1,630 (100.0%)</b>	<b>1,482 (100.0%)</b>	<b>2,354 (100.0%)</b>	<b>2,156 (100%)</b>

## 5.2 Assessment of the Composition of the ACs

Table 6 provides summary statistics of the number of directors in companies and members in ACs respectively.

**Table 6: Summary Statistics of Number of Company Directors and AC Members**

	≥S\$500m				<S\$500m				Catalist			
	Min	Max	Mean	Med	Min	Max	Mean	Med	Min	Max	Mean	Med
	<b>2011 Survey</b>											
No of Directors	5	22	8.6	8	3	12	6.5	6	4	10	5.8	6
No of AC Members	3	6	3.4	3	1	5	3.2	3	3	4	3.2	3
% of AC Members / Directors	18%	80%	42%	43%	25%	80%	51%	50%	33%	80%	56%	60%
	<b>2009 Survey</b>											
No of Directors	4	22	9.4	9	4	16	6.8	6	3	10	6.1	6
No of AC Members	3	7	3.6	3	2	7	3.2	3	2	5	3.2	3
% of AC Members / Directors	18%	80%	41%	38%	23%	83%	49%	50%	30%	80%	54%	50%

Although larger market cap companies seem to have larger boards, with an average size of nine members for companies with market capitalisation of more than or equal to S\$500 million and six members for companies with market capitalisation of less than S\$500 million or Catalist-listed, with respect to the number of members in the AC, the median number of members in the ACs were the same for all three categories of companies, with three members each. Thus, in terms of the numbers of company directors and AC members, the 2011 survey statistics are mostly similar to those of the 2009 survey.

<sup>14</sup> One company did not have a chairman for their ACs as the previous chairman had resigned. One company had an alternate to the chairperson. We had included the alternate in the statistics. Therefore, there were 724 chairmen (724 - 1 + 1 = 724) for 724 companies in the sample.

Table 7 shows the distribution of the samples with regards to the number of members in the ACs. All companies with market capitalisation of greater than or equal to S\$500 million and those from Catalist had at least three members in the ACs. There were five companies with market capitalisation of less than S\$500 million which had two or fewer members in the AC, which is in contravention to the CG Code. One reason provided for having fewer than three members in the ACs was that the company was still searching for replacements for the members of the AC who had resigned. Clearly, the listed companies followed a minimalist approach as 79.6% of the sample had three members in the AC which is the minimum requirement under the CG Code. Finally, 29.7% of companies with market capitalisation greater than or equal to S\$500 million had four members in their ACs.

**Table 7: Distribution of AC Memberships According to Types of Companies**

	2011 Survey		2009 Survey		2011 Survey		2009 Survey	
	≥S\$500m				<S\$500m			
One Member in AC	0	0.0%	0	0.0%	1	0.2%	0	0.0%
Two Members in AC	0	0.0%	0	0.0%	4	0.9%	1	0.2%
Three Members in AC	94	63.5%	67	66.3%	378	83.4%	373	85.0%
Four Members in AC	44	29.7%	26	25.8%	62	13.7%	60	13.7%
Five Members in AC	9	6.1%	6	5.9%	8	1.8%	4	0.9%
Six Members in AC	1	0.7%	1	1.0%	0	0.0%	0	0.0%
Seven Members in AC	0	0.0%	1	1.0%	0	0.0%	1	0.2%
<b>TOTAL</b>	<b>148</b>	<b>100.0%</b>	<b>101</b>	<b>100.0%</b>	<b>453</b>	<b>100.0%</b>	<b>439</b>	<b>100.0%</b>
	Catalist				Total			
One Member in AC	0	0.0%	0	0.0%	1	0.1%	0	0.0%
Two Members in AC	0	0.0%	4	3.0%	4	0.6%	5	0.8%
Three Members in AC	104	84.6%	113	83.7%	576	79.6%	553	81.9%
Four Members in AC	19	15.4%	17	12.6%	125	17.3%	103	15.3%
Five Members in AC	0	0.0%	1	0.7%	17	2.3%	11	1.6%
Six Members in AC	0	0.0%	0	0.0%	1	0.1%	1	0.1%
Seven Members in AC	0	0.0%	0	0.0%	0	0.0%	2	0.3%
<b>TOTAL</b>	<b>123</b>	<b>100.0%</b>	<b>135</b>	<b>100.0%</b>	<b>724</b>	<b>100.0%</b>	<b>675</b>	<b>100.0%</b>

The types of directorship of the members of the ACs are shown in Table 8. The Companies Act allows members in the ACs to be executive directors so long as the majority comprises non-executive directors and the chairman must be a non-executive director. However, the CG Code has a higher threshold which requires all members of the ACs to be non-executive directors and the chairman to be an independent director. Of our sample firms in the 2011 survey, three firms, all of which were companies with secondary listing, had appointed executive directors as chairmen of their ACs. This finding suggests that this is permissible in the jurisdictions which the companies are primarily listed. In one company, the chairman had an alternate and it is not clear whether the role of the alternate director extends to being the chairman of the AC. Only a very small handful of the ACs had executive directors (1.9%) as chairmen or members. Interestingly, the survey also documented four cases where the members of the ACs were nominated by the management or the board. Again, three of these four cases were from companies with secondary listing.

**Table 8: Types of Directors in the ACs**

	Chairmen		Members		Total	
	2011 Survey	2009 Survey	2011 Survey	2009 Survey	2011 Survey	2009 Survey
Independent Director	720 <sup>15</sup> (99.5%)	673 (99.0%)	1,281 (78.6%)	1,186 (80.0%)	2,001 (85.0%)	1,859 (86.2%)
Non-executive Director	1 <sup>16</sup> (0.1%)	1 (0.1%)	285 (17.5%)	253 (17.1%)	286 (12.2%)	254 (11.8%)
Executive Director	3 (0.4%)	0 (0.0%)	41 (2.5%)	42 (2.8%)	44 (1.9%)	42 (2.0%)
Alternate Director	0 (0.0%)	0 (0.0%)	19 (1.2%)	1 (0.1%)	19 (0.8%)	1 (0.0%)
Management Nominated Director	0 (0.0%)	0 (0.0%)	4 (0.2%)	0 (0.0%)	4 (0.1%)	0 (0.0%)
<b>TOTAL</b>	<b>724 (100.0%)</b>	<b>674 (100.0%)</b>	<b>1,630 (100.0%)</b>	<b>1,482 (100.0%)</b>	<b>2,354 (100.0%)</b>	<b>2,156 (100.0%)</b>

<sup>15</sup> One of the Chairmen has an alternate director.

<sup>16</sup> In the annual report, the individual is referred to as a non-executive Chairman of the Audit Committee and the nature of his appointment is referred to as "Independent Non Executive".

### 5.3 Assessment of the Qualifications of AC Members

Table 9 provides a summary of the formal educational qualification of the chairmen and members of the AC. At least 94.6% of all chairmen of the ACs had a minimum professional qualification and a closer examination of the professional qualifications suggested that most of them were in accountancy.

**Table 9: Distribution of Educational Qualifications of AC Members**

2011 Survey	Chairmen		Members		Total	
Doctorate/LLD	23	5.0%	96	7.6%	106	6.9%
Post Graduate Qualifications	131	28.5%	368	29.3%	444	28.8%
Bachelor/LLB	197	42.8%	500	39.7%	619	40.1%
Professional Qualifications	84	18.3%	88	7.0%	148	9.6%
Post-Secondary/Diploma	4	0.8%	40	3.2%	42	2.7%
Secondary	0	0.0%	11	0.9%	11	0.7%
Insufficient Information	21	4.6%	155	12.3%	173	11.2%
<b>TOTAL</b>	<b>460</b>	<b>100.0%</b>	<b>1,258</b>	<b>100.0%</b>	<b>1,543</b>	<b>100.0%</b>

Table 10 shows that 41.8% of chairmen of ACs had their major areas of education in accountancy or finance but only 17.1% of the members of ACs were accounting or finance-trained. Nevertheless, compared to the findings in the 2009 survey, this is a significant improvement, namely, 24.0% of the chairmen and 10.4% of the members were finance-trained then.

**Table 10: Distribution of Major Areas of Education of AC Members**

2011 Survey	Chairmen		Members		Total	
Accountancy	171	37.2%	167	13.3%	286	18.5%
Finance	21	4.6%	48	3.8%	62	4.0%
Management	113	24.6%	301	23.9%	366	23.7%
Economics	29	6.3%	78	6.2%	92	6.0%
Law	35	7.6%	218	17.3%	235	15.2%
Engineering	27	5.8%	124	9.9%	140	9.1%
Arts	18	3.9%	57	4.5%	65	4.2%
Science	19	4.1%	82	6.5%	89	5.8%
Others	9	2.0%	50	4.0%	58	3.8%
Insufficient information	18	3.9%	133	10.6%	150	9.7%
<b>TOTAL</b>	<b>460</b>	<b>100.0%</b>	<b>1,258</b>	<b>100.0%</b>	<b>1,543</b>	<b>100.0%</b>

### 5.4 Assessment of the Experience of AC Members

Table 11 shows the major full-time experience of the chairmen and members of the AC.

**Table 11: Distribution of Major Full-Time Experiences of AC Members**

2011 Survey	Chairmen		Members		Total	
Academia	9	2.0%	50	4.0%	53	3.4%
Accountancy/Auditing	122	26.5%	103	8.2%	188	12.2%
Banking/Finance/Investment	153	33.3%	265	21.1%	358	23.2%
Civil Service	13	2.8%	42	3.3%	49	3.2%
Legal Practices	31	6.7%	204	16.2%	217	14.1%
Senior Management	113	24.5%	507	40.3%	575	37.3%
Others	10	2.2%	56	4.4%	64	4.1%
Insufficient Information	9	2.0%	31	2.5%	39	2.5%
<b>TOTAL</b>	<b>460</b>	<b>100.0%</b>	<b>1,258</b>	<b>100.0%</b>	<b>1,543</b>	<b>100.0%</b>

Despite the fact that only 22.5% of all the chairmen and members of the ACs had major areas of education in accountancy or finance in Table 10, Table 11 shows that 35.4% of the members of the ACs had accountancy or finance as their major full-time experience. This is higher than the 26.0% in the 2009 survey.

GAC (2008, para. 1.2.4) defines “accounting or related financial management expertise or experience” as the ability to read and understand financial statements, and the ability to ask pertinent questions relating to the financial reporting process amongst others. Therefore, the low percentage of members of the ACs having major education in accountancy or finance was augmented by members having major full-time experience in accountancy or finance and thus satisfying the requirements of the GAC.

The survey documents that several members of the ACs were academics and more than 30% of these academics were accountancy or finance-trained. In this survey, we had also included a new category for members from the ‘Civil Service’. These are high ranking senior civil servants who are equivalent to directors in the private sector with senior management experience. If we consider those with senior management, academia and civil service experience as having relevant accounting and financial management expertise or experience, then 79.3% of the members of AC can be deemed to have satisfied this critical requirement under the GAC. This is comparable to the findings in the 2009 survey.

Table 12 shows the statistics on the number of years the individuals had been in the company. It shows that 51.6% of the members of AC had been associated with the companies for five years or less as compared to 56.3% for the 2009 survey. The survey findings seem to suggest that the renewal of the members of AC has slowed down after the introduction of the CG Code.

**Table 12: Number of Years AC Members have been with the Companies**

	Chairmen		Members		Total	
	2011 Survey					
Less than or Equal to One year	86	11.9%	316	19.4%	402	17.1%
More than One Year to Five Years	250	34.5%	563	34.5%	813	34.5%
More than Five Years to Ten Years	211	29.1%	374	23.0%	585	24.8%
Greater than Ten Years	118	16.3%	220	13.5%	338	14.4%
Insufficient Information	59	8.2%	157	9.6%	216	9.2%
<b>TOTAL</b>	<b>724</b>	<b>100.0%</b>	<b>1,630</b>	<b>100.0%</b>	<b>2,354</b>	<b>100.0%</b>
	2009 Survey					
Less than or Equal to One year	112	16.6%	302	20.4%	414	19.2%
More than One Year to Five Years	240	35.6%	559	37.7%	799	37.1%
More than Five Years to Ten Years	127	18.9%	235	15.9%	362	16.8%
Greater than Ten Years	87	12.9%	163	11.0%	250	11.6%
Insufficient Information	108	16.0%	223	15.0%	331	15.3%
<b>TOTAL</b>	<b>674</b>	<b>100.0%</b>	<b>1,482</b>	<b>100.0%</b>	<b>2,156</b>	<b>100.0%</b>

Table 13 shows the breakdown of the date of the first appointment of the members of ACs. About 86.0% of the total membership of ACs did not disclose the date of their first appointment to the ACs. Although this information is not required in the CG Code, the date of the first appointment to the AC can be considered pertinent information as it provides information on the tenure of the AC members according to the GAC.

**Table 13: Date of First Appointment to the ACs**

	Chairmen		Members		Total	
2009-2010	46	6.4%	219	13.4%	265	11.2%
2007-2008	5	0.7%	8	0.5%	13	0.5%
2005-2006	3	0.4%	5	0.3%	8	0.3%
2003-2004	5	0.7%	2	0.1%	7	0.3%
2001-2002	5	0.7%	8	0.5%	13	0.6%
1999-2000	3	0.4%	3	0.2%	6	0.3%
Before 1999	9	1.2%	9	0.6%	18	0.8%
No Information	648	89.5%	1,376	84.4%	2,024	86.0%
<b>TOTAL</b>	<b>724</b>	<b>100.0%</b>	<b>1,630</b>	<b>100.0%</b>	<b>2,354</b>	<b>100.0%</b>

## 5.5 Assessment of the Extent of Compliance of ACs with the Corporate Governance Code

Table 14 reports the association between the percentages of executive directors in ACs and the size of ACs. With respect to the compliance of the Companies Act and CG Code, the survey finds that there were 42 companies which had executive directors on their ACs.<sup>17</sup> This is not in compliance with the CG Code but they do not violate the Companies Act. Of these 42 companies, 95% of them had one appointed executive director in their ACs where the size of the ACs ranged from three to five. In three of the companies with secondary listing which had four members in the AC, one member (25%) in the AC was an executive director. In addition, in two of the companies with secondary listing which had four AC members, two (50%) of the AC members were executive directors.

**Table 14: Companies which have Executive Directors in their ACs**

Number of Members in the AC	No of Companies	Proportion of Executive Directors in the AC Members			
		20%	25%	33%	50%
1	1	0	0	0	0
2	4	0	0	0	0
3	576	0	0	28	0
4	125	0	11	0	2
5	17	1	0	0	0
6	1	0	0	0	0
<b>TOTAL</b>	<b>724</b>	<b>1</b>	<b>11</b>	<b>28</b>	<b>2</b>
<b>Secondary Listed</b>	<b>8</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>2</b>

Of the 44 executive directors who had been appointed to the ACs (as in Table 8), nine (20.5%) held the position of chairman of the company board and three served as chairman of the AC of companies with a secondary listing.

Samples of the explanations given by these companies for having an executive director in the AC are presented here:

- “Although the Audit Committee does not comprise entirely of non-executive directors, there are sufficient safeguards to minimise the risk of any potential conflict of interest. The majority of its members are independent. Further, in the event that a member of the Audit Committee is interested in any matter being considered by the Audit Committee, he will abstain from reviewing that particular transaction or voting on that particular resolution.” (Advanced Integrated Manufacturing Corp Limited)
- “The Company considers that it is not necessary for the time being, for all three members of the AC to be non-executive directors taking into account the nature and scope of the Company’s operations and the additional costs to be incurred in appointing an additional non-executive director. The Company will review the need to appoint another non-executive and independent director when necessary.” (Aussino Group Limited)
- “The Company is of the view that the size of the Group’s present business and operations do not justify the appointment of a third non-executive Director for the purpose of reconstituting the AC to comprise solely non-executive Directors.” (CHT (Holdings) Limited)
- “Mr Tan Kay Soon Kenneth is the Executive Director of the company and is actively involved in the company’s operations. Given his invaluable professional expertise and managerial experience, he is an AC member and member of the Board. Also, the AC comprises of three directors, the majority of whom, including the Chairman, are independent non-executive directors.” (Eastern Holdings Limited)
- “The Company is of the view that the current size of the Group’s business and operations does not justify the appointment of a third non-executive director for the purpose of reconstituting the AC to comprise solely of non-executive directors. The Company will review the need to appoint another independent and non-executive director when necessary.” (Full Apex (Holdings) Limited)
- “It is confident that the corporate governance of the Company has not been and will not be compromised by the existing composition of the Audit Committee and that the Independent Directors in the AC will continue to benefit from the experience and expertise of the Executive Director in the AC in carrying out their respective duties effectively.” (Lian Beng Group Limited)
- “While the AC does not have the composition specified in the Code of Corporate Governance, there are corporate governance practices in place where a Director will not recommend or participate in decisions of the Board or a Board Committee he sits on, if he is interested or deemed to be interested in the said decisions. The Independent Directors have performed and will continue to perform their duties independently of management. The Board is confident that the corporate governance of the Company has not been and will not be compromised by the existing AC.” (Vashion Group Limited)

From the explanations given, the CG Code seems to be promoting the desired outcome as companies which were not complying with the CG Code were able to produce reasonable explanations for their non-compliance, which is another example of the effectiveness of the CG Code in promoting transparency and accountability.

Other than the above exceptions, companies generally complied with the provisions of the Companies Act and the CG Code.

<sup>17</sup> There were 44 executive directors in the survey and there were two companies which had two executive directors each.

One of the major areas of concern in the corporate landscape in Singapore is the lack of financially-trained or experienced individuals available for appointment to the ACs of listed companies. Tables 10 and 11 present the statistics for the formal finance and accounting qualifications and experience of the members of ACs. Table 15 shows the summary statistics on the number of AC members with formal accounting or finance-training or experience.

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

No. of Financially-Trained Members in AC	≥S\$500m		<S\$500m		Catalist		Total	
	No of Cos	%	No of Cos	%	No of Cos	%	No of Cos	%
<b>2011 Survey</b>								
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%
<b>TOTAL</b>	<b>148</b>	<b>100.0%</b>	<b>453</b>	<b>100.0%</b>	<b>123</b>	<b>100.0%</b>	<b>724</b>	<b>100.0%</b>
<b>2009 Survey</b>								
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	11.9%	14	10.4%	73	10.8%
4	2	2.0%	1	0.2%	1	0.7%	4	0.6%
<b>TOTAL</b>	<b>101</b>	<b>100.0%</b>	<b>439</b>	<b>100.0%</b>	<b>135</b>	<b>100.0%</b>	<b>675</b>	<b>100.0%</b>

Clearly, the requirement of at least two financially-trained members for each AC was not met by most of the companies as less than half of the companies (44.3%) met this requirement. In comparison to the 2009 survey, which showed 45.8% of companies meeting the requirement of having two or more financially-trained AC members, the situation seems to have worsened slightly, according to the current survey. However, if we include members of ACs who had senior management experience on the assumption that such senior managers had accounting and finance experience, the situation would seem much better as shown in Table 16, which included senior management experience as a sufficient substitute for accounting and finance-training. In this scenario, only 14.0% of the sample would be deemed to have one or no AC member who was financially-trained. Nonetheless, the situation has not improved, compared to the findings in the 2009 survey (8.3%).

**Table 16: Summary Statistics of AC Members who are Financially-Trained (including those who have Senior Management Experience)**

No. of Financially-Trained Members in AC	≥S\$500m		<S\$500m		Catalist		Total	
	No of Cos	%	No of Cos	%	No of Cos	%	No of Cos	%
<b>2011 Survey</b>								
0	0	0.0%	5	1.1%	2	1.6%	7	1.0%
1	16	10.8%	64	14.1%	14	11.4%	94	13.0%
2	50	33.8%	200	44.2%	59	48.0%	309	42.7%
3	53	35.8%	162	35.8%	36	29.3%	251	34.7%
4	24	16.2%	19	4.2%	10	8.1%	53	7.3%
5	5	3.4%	2	0.4%	2	1.6%	9	1.2%
6	0	0.0%	1	0.2%	0	0.0%	1	0.1%
<b>TOTAL</b>	<b>148</b>	<b>100.0%</b>	<b>453</b>	<b>100.0%</b>	<b>123</b>	<b>100.0%</b>	<b>724</b>	<b>100.0%</b>
<b>2009 Survey</b>								
0	0	0.0%	2	0.5%	0	0.0%	2	0.3%
1	3	3.0%	33	7.5%	18	13.4%	54	8.0%
2	32	31.7%	151	34.4%	74	54.8%	257	38.1%
3	48	47.5%	228	51.9%	40	29.6%	316	46.8%
4	15	14.8%	23	5.3%	3	2.2%	41	6.1%
5	2	2.0%	1	0.2%	0	0.0%	3	0.4%
6	1	1.0%	1	0.2%	0	0.0%	2	0.3%
<b>TOTAL</b>	<b>101</b>	<b>100.0%</b>	<b>439</b>	<b>100.0%</b>	<b>135</b>	<b>100.0%</b>	<b>675</b>	<b>100.0%</b>

To get a better understanding as to whether the CG Code has resulted in a greater number of financially-trained individuals joining ACs, Table 17 provides a breakdown of the relationship between the years of association with the company for AC members and the number of AC members who were financially-trained.

Table 17 suggests that the 2011 survey shows that 97.7% of chairmen of ACs that had been with the companies for less than or equal to one year and 92.0% of those within one to five years are financially-trained. This is also generally true for newly-appointed members of ACs. Compared to the findings in the 2009 survey, there is a trend of more finance-trained individuals joining the ACs of companies, namely, 97.7% (2011) versus 84.8% (2009) of chairmen of ACs who joined the companies within one year and 69.3% (2011) versus 43.0% (2009) of members who joined the company within one year. This suggests that the Companies Act and the CG Code have resulted in getting more financially-trained individuals to become chairmen and members of ACs in recent years.

**Table 17: Relationship between Number of Years AC Members have been with the Company and Number of AC Members who are Financially-Trained**

	Chairmen			Members			Total		
	No	Trained*	%	No	Trained*	%	No	Trained*	%
	<b>2011 Survey</b>								
Less than or equal to 1 Year	86	84	97.7%	316	219	69.3%	402	303	75.4%
More than 1 to 5 Years	250	230	92.0%	563	380	67.5%	813	610	75.0%
More than 5 Years to 10 Years	211	175	82.9%	374	245	65.5%	585	420	71.8%
Greater Than 10 Years	118	90	76.3%	220	143	65.0%	338	233	68.9%
Insufficient Information	59	57	96.6%	157	105	66.9%	216	162	75.0%
<b>TOTAL</b>	<b>724</b>	<b>636</b>	<b>87.8%</b>	<b>1,630</b>	<b>1,092</b>	<b>67.0%</b>	<b>2,354</b>	<b>1,728</b>	<b>73.4%</b>
	<b>2009 Survey</b>								
Less than or equal to 1 Year	112	95	84.8%	302	130	43.0%	414	225	54.3%
More than 1 to 5 Years	240	177	73.8%	559	185	33.1%	799	362	45.3%
More than 5 Years to 10 Years	127	76	59.8%	235	86	36.6%	362	162	44.8%
Greater Than 10 Years	87	45	51.7%	163	40	24.5%	250	85	34.0%
Insufficient Information	108	78	72.2%	223	83	37.2%	331	161	48.6%
<b>TOTAL</b>	<b>674</b>	<b>471</b>	<b>69.9%</b>	<b>1,482</b>	<b>524</b>	<b>35.4%</b>	<b>2,156</b>	<b>995</b>	<b>46.2%</b>

\*Financially-trained.

## 5.6 Assessment of Any Other Issues Deemed Pertinent to the Research Topic

One area in which the current survey pays attention to is the presence and role of alternate directors in the ACs. There were 19 alternate directors on the ACs for 19 different companies as compared to only one alternate director for the AC members in the 2009 survey. The presence of alternate directors was evenly spread among the three types of companies, namely, there were four alternate directors among the companies with market capitalisation more than or equal to S\$500 million, nine alternate directors among the companies with market capitalisation less than S\$500 million and seven in the Catalist. Only one served as an alternate to the chairman of an AC. Nine of these directors had been with the company for one year or less. This may be an indication that having alternate directors is becoming more prevalent and it is open for discussion whether members of ACs should be allowed to have alternate directors since ACs have a critical role to play in the proper governance of the company.

The profiles of these alternate directors were relatively similar to the profile of the rest of the directors in the survey.

## 6. CONCLUSION

This survey is a follow-up of the 2009 survey and it provides a continued understanding of listed companies' compliance with the various legislations and the CG Code with respect to these companies. In general, the survey found that the Companies Act and the CG Code have been effective in bringing forth structural changes to the composition of ACs of listed companies in Singapore. Most companies are complying with the corporate governance guidelines. However, there are a few differences in the findings of the current survey vis-à-vis the 2009 survey. This suggests that companies seem to have settled into the requirements of the CG Code on ACs with few improvements since the last survey. One notable difference is the trend in getting finance-trained individuals to be members of ACs. However, the ideal of having two members of the AC who are finance-trained is still a distance away if senior management experience is not used to proxy financial skills or training. Finally, there is an increasing trend of appointing alternate directors to AC members.



# DISCUSSION ON AUDIT COMMITTEES

## Question 1: How well are the listed companies in Singapore complying with the regulatory requirements and guidelines governing audit committees?

Currently, there are five major sources of regulations that prescribe best practices for ACs:

- The Companies Act (Chapter 50), Section 201B;
- The Singapore Code of Corporate Governance (2005);
- The Guidelines on Corporate Governance for Banks, Financial Holding Companies and Direct Insurers which are Incorporated in Singapore (2010) by the Monetary Authority of Singapore;
- The Singapore Exchange Listing Rules; and
- Guidebook for Audit Committees in Singapore (2008) by the Audit Committee Guidance Committee.

The key statistics from the survey report pertaining to the compliance of relevant Code and rules are summarised in Table 18.

Overall, listed companies complied with the relevant regulatory requirements and guidelines in having ACs (100%) and the minimum three-member requirement (99.3%) except for instances where there was a vacancy to be filled. For the independence of chairmen, all companies complied except for the three secondary listed companies (99.6%), which had executive directors as chairman of the AC.

With reference to Table 18, if we use the companies' disclosure of independent directors, 78.6% of all the members of AC<sup>18</sup> in the 2011 survey were independent but if we include non-executive directors as independent directors, the percentage would increase to 96.1%.

On the requirements of at least two financially-trained AC members, using a strict definition of individuals who were formally trained in accounting and finance or who were practicing in the accounting and finance related fields, only 44.3% of the sample meet this requirement. However, if the scope is widened to include senior management experience, the percentage would increase to 86.0%.

Therefore, we can conclude from the survey that the regulatory requirements or guidelines governing ACs are generally complied with. An area that may require some attention is the definition of "financially-trained" members of the AC which at this juncture is subject to varying interpretations.

## Question 2: What are some further improvements in best practices which we should consider given the above compliance by the listed companies?

We would like to suggest two improvements in the current best practices.

### (I) "Independence"

First, there is a need for a common definition and understanding of "independence" as the various regulatory requirements and guidelines have different promulgation and articulation of what is independence. For example, the Companies Act, Chapter 50, Section 201B does not use the phrase "independent director" but instead implies independence using the description in the following manner:

- "Non-executive directors of the company or any related corporation;*
- 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*
- 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."*

On the other hand, the CG Code specifically mentions that "The AC should comprise at least three directors, all non-executive, the majority of whom, including the Chairman, should be independent." (para. 11.1) and the definition of "independent director" in the CG Code is as follows:

*"An 'independent' director is one who has no relationship with the company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interests of the company. Examples of such relationships, which would deem a director not to be independent, include:*

- a director being employed by the company or any of its related companies for the current or any of the past three financial years;*
- a director who has an immediate family member who is, or has been in any of the past three financial years, employed by the company or any of its related companies as a senior executive officer whose remuneration is determined by the remuneration committee;*
- a director, or an immediate family member, accepting any compensation from the company or any of its subsidiaries other than compensation for board service for the current or immediate past financial year; or*

**Table 18: Summary of Key Statistics Pertaining to the Compliance of Relevant Code and Rules**

Relevant Codes or Rules	Requirements / Recommendations	2011 Compliance Rate	2009 Compliance Rate
CA, Section 201B(1); CG Code, para. 11; GAC, para. 1.2.	An AC in place	100%	100%
CA, Section 201B(2); CG Code, para. 11.1; GAC, para. 1.2.1.	At least three members (Table 7)	99.3% <sup>19</sup>	99.2%
CA, Section 201B(3); SGX Listing Rule 704; CG Code, para. 11.1; GAC, para. 1.2.9	Independent AC Chairman (Table 8)	99.5% <sup>20</sup> (independent director only) 99.6% (including non-executive director)	99.9% (independent director only) 100.0% (including non-executive director)
CA, Section 201B(2); SGX Listing Rule 704; CG Code, para. 11.1; GAC, paras. 1.2.1-1.2.3	Independence of AC members (Table 8)	78.6% <sup>18</sup> (independent director only) 96.1% (including non-executive director)	80.0% (independent director only) 97.1% (including non-executive director)
CG Code, para. 11.2; GAC, para. 1.2, 1.2.4-1.2.5	At least two financially-trained AC members (Table 15 & 16)	44.3% <sup>18</sup> (academic qualification and professional practice) 86.0% (including Senior Management experience)	45.8% (academic qualification and professional practice) 91.7% (including Senior Management experience)

<sup>18</sup> Companies Act, Section 201B(1) does not require all members of the AC to be independent. The statistic refers to 100% independent members for AC.

<sup>19</sup> Companies Act, Section 201B(4) allows companies to replace a resigned or demised AC member within three months. Companies that have less than three AC members are generally in the process of replacing their AC members.

<sup>20</sup> The three non-compliance companies do not violate the Companies Act as they are foreign registered companies.



(d) a director, or an immediate family member, being a substantial shareholder of or a partner in (with 5% or more stake), or an executive officer of, or a director of any for-profit business organisation to which the company or any of its subsidiaries made, or from which the company or any of its subsidiaries received, significant payments in the current or immediate past financial year. As a guide, payments aggregated over any financial year in excess of S\$200,000 should generally be deemed significant." (para. 2.1)

The Consultation Paper on the Proposed Revision to the Code of Corporate Governance (hereafter called PR-CCG) by the Corporate Governance Council issued in June 2011 has a key proposal on "Director Independence". Additional instances where a director will be deemed non-independent include:

- "if the director is or was, in the current or any of the past three financial years, a substantial shareholder, partner, executive officer, or director of organisations to which the company or any of its related corporations made, or received significant payments or material services in the current or immediate past financial year;
- if the director is a substantial shareholder or an immediate family member of a substantial shareholder of the company,
- if the director is or has been directly associated with a substantial shareholder of the company in the current or any of the past three financial years; and
- if the director has served on the Board for more than nine years from the date of his or her first election." (Key Proposal 1)

Finally, the GAC articulates the requirement for "independence" of the AC members without calling the members an independent director. "Independence" in the GAC is defined in view of the following factors:

- **"Shareholding interest:** A shareholding interest in the company beyond a certain limit. This shareholding interest should include share options and other convertible securities, as well as, all shareholdings held by the Director's immediate family members.
- **Gift or financial assistance:** The receipt of shares or other securities in the company by way of a gift or financial assistance from the company or its major shareholders for the purchase of shares/securities in the company other than pursuant to an approved scheme.
- **Past association:** Past association with a professional adviser as a Director, partner, principal or employee who has, in the immediate past, before the Director's appointment, provided professional services of a significant or material nature or scope to the listed company (and related parties where the listed company has close business or operational interactions with such related parties). An intervening period of one year is sometimes applied for this assessment. Whether such a period is appropriate depends on the circumstances, which the AC member is in the best position to judge.
- **Business dealings:** Material business dealings or involvement with the company or its related parties in the recent past.
- **Representative of shareholder:** A representative of a shareholder appointed specifically to represent or protect the interest of that shareholder whose interests are not the same as those of the shareholders as a whole.
- **Financial dependence:** Financial dependence on the listed issuer or its related parties, e.g. if a Director has no other major sources of income and is financially dependent on the fees, he would need to carefully consider whether he can indeed exercise the independent judgment required of him." (para. 1.2.2)

The challenge in the concept of independence of a director is that different regulatory sources provide different versions or specifications. It will be an improvement if the Companies Act, the CG Code and the GAC adopt a common description or definition of independence. Confusion can arise, for example, under the Companies Act, a non-executive director is deemed to be independent but a non-executive director and an independent director are not synonymous or interchangeable in substance, namely the set of independent directors is a subset of non-executive directors.

Therefore, it may be appropriate to suggest that generically, there should be only three major classifications of directors, namely, independent directors, alternate directors and directors. The last category of directors will be deemed as non-independent and they will include executive directors. Whether non-executive directors are independent or not will depend on whether the rest of the definitions of independence are satisfied. This means that non-executive directors are deemed non-independent unless they are specially held out as independent. This is consistent with the notion that the set of independent directors is a subset of the set of non-executive directors. In addition, there

will be greater clarity if companies are encouraged to use only the above three categories with further qualification as to whether they are executive or non-executive.

## (II) "Financially-Trained"

A second area of improvement is the definition of "financially-trained". The Companies Act is silent on the requirement of a financially experienced individual in the AC. Nonetheless, the functions of the AC as defined in Section 201B(5) seem to require members of the AC to be knowledgeable in audit matters, internal control or financial reporting. The CG Code has the following requirement:

"The Board should ensure that the members of the AC are appropriately qualified to discharge their responsibilities. At least two members should have accounting or related financial management expertise or experience, as the Board interprets such qualification in its business judgement." (para. 11.2)

The duties of the AC as spelled out in para. 11.4 of the CG Code are in substance similar to the expectations in the Companies Act, Section 201B(5). Finally, the GAC has a more extensive articulation of what is "accounting or related financial management expertise or experience" in para. 1.2.4:

- **"The ability to read and understand financial statements,** including a company's balance sheet, income statement and cash flow statement.
- **The ability to understand and assess the general application of** local or other generally accepted accounting principles.
- **The ability to ask pertinent questions** about the company's financial reporting process.
- **The ability to effectively challenge Management's assertions** on financials and Management's responses when appropriate.
- **The ability to understand internal controls and risk factors** relevant to the company's operations, including those relating to complex financial instruments that are in use.
- **Experience gained through executive responsibility** for a sizeable business including having or having had responsibility for the finance function, such as being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.
- **Education or professional qualifications** relating substantially to accounting or finance.
- **Experience in working** within the areas of corporate finance, financial reporting or accounting."

Therefore, to enable a common understanding or aligned expectation of what "accounting or related financial management expertise or experience" means, we propose that the working definition of the GAC be adopted in the CG Code and Companies Act in order to remove any possible ambiguities. A second suggestion is that companies may be required to disclose in their opinions whether their AC members meet the definition of relevant "accounting or related financial management expertise or experience" as articulated in the GAC, para. 1.2.4. A final suggestion is that in addition to the AC having at least two members who are financially skilled, one of the two or more financially skilled individuals should be the chairman of the AC. Companies should be required to disclose the qualification or accounting and financial skills of the chairman of the AC.

## Question 3: Have companies' compliance increased over time?

The overall compliance is stable between the two surveys. Although some rates decreased marginally, it does not mean the quality of AC governance has deteriorated because the number of companies in the sample has also increased from 675 in 2009 to 724 in 2011, an increase of 7.3%.

#### **Question 4: The Singapore Code of Corporate Governance was last reviewed in 2005. Is there any advancement in corporate governance practices with respect to ACs between now and 2005?**

The recent Consultation Paper on the PR-CCG by the Corporate Governance Council issued in June 2011 has the following key proposals which may affect the advancement of best practices for AC. They include:

- a. Director Independence (Key Proposal 1)
- b. Director Training (Key Proposals 3 and 4)
- c. Multiple Directorships (Key Proposal 5)
- d. Alternate Directors (Key Proposal 6)
- e. Remuneration Practices and Disclosures (Key Proposal 7)

We will now discuss how the above key proposals can further enhance corporate governance practices with respect to the ACs.

For director independence, this is a welcome move to articulate clearly the definition of independence and to use this standard definition as the benchmark. The Companies Act and the GAC should consider aligning their definition of independence with the Key Proposal 1.

For director training, this is crucial because as the accounting and financial complexities of companies continue to rise, members of ACs need to be kept up to date on their accounting and financial management related skills and knowledge. Therefore, as part of their function as AC members, they should be funded to upgrade their skills and knowledge.

The issue of multiple directorships had been discussed at length. The general conclusion was that the Nomination Committee should *“deliberate on this matter and satisfy themselves that each director is able to carry out his duties, taking into consideration the director’s other board representations and principal commitments”* and each *“board should also set and disclose the maximum number of listed company board representations its directors can hold”* in the PR-CCG.

We hold a contrary position on this as the roles and responsibilities of the members of the ACs are well-defined and their diligence and utmost attention have significant implications on the company. Since listed companies are mandatorily required to have quarterly reporting except for companies which are exempted under SGX Listing Rule 705(4), it is reasonable to expect that an AC should meet at least quarterly to vet the quarterly financial reports amongst other responsibilities as defined in the Companies Act, CG Code and GAC. Given these onerous responsibilities, we are doubtful that members who have multiple chairmanships or memberships in ACs will have enough time and will be able to apply significant due diligence and efforts to carry out their responsibilities properly.

There will always be exceptions but a norm should be established beyond which the Board should deliberate whether the individual is able to discharge his duties adequately, for example, by taking into account his professional qualification, experience and existing commitments. We recommend a norm of not exceeding four chairmanships or six memberships of AC for individual directors. A rationale is that an individual who sits on four ACs will be expected to spend at least three days or more every quarter to address the needs of quarterly reporting of the three companies, in addition to other responsibilities of the AC and board’s responsibilities. This will be more onerous for chairmen of the ACs. This practically means that for each quarter, individuals who hold six memberships in ACs will have to spend approximately six or more working days to address and handle the quarterly reporting. This is notwithstanding that all listed companies face the same time pressure in reporting their quarterly results. If this norm is adopted, based on the statistics from the 2011 survey, it will at most affect 16 of the 460 individual chairman (3.4%) who held four or more chairmanships or 3 of the 1,258 individual members of ACs (0.2%) who held seven or more membership in ACs. This may be a beneficial move to signal Singapore as a financial hub which does not have a shortage of good accounting and financial professionals who can be members or chairmen of ACs. It also provides a credible signal that the ACs of the listed companies in Singapore are not concentrated in the hands of a few individuals. This may be extremely crucial particularly when there are general shocks in the market and every company under a general shock scenario may require special attentions from the ACs concurrently. It is encouraging to note that the number of multiple chairmanships and memberships in ACs has declined from the 2009 survey as compared to the 2011 survey.

For alternate directors, the PR-CCG clearly identifies the basic problem and thus proposed that *“directors should not appoint alternate directors except for limited periods in exceptional circumstances”*. This is especially critical for ACs because of the need for continuity in dealing with the internal control, financial matters and the roles of the ACs. The increasing trend of appointing alternate directors is particularly worrying as the survey found a significant increase in alternate directors amongst members of the ACs (19 alternate directors in 2011 as compared to one alternate director in 2009).

Finally, with regards to remunerations of directors, we fully agree that *“the level and structure of remuneration should be aligned with the long-term interests and risk policies of the company”* particularly for members of ACs who serve as the ultimate financial gatekeepers of the company. This may suggest the development of a market for members of ACs because of their expertise.

#### **Question 5: Do you see a need to establish a minimum cap on the number of AC meetings for a listed company?**

The current quarterly reporting for listed companies may already set a practical minimum cap on the number of AC meetings for listed companies as it is difficult to reconcile the practice where quarterly earnings are released to the market without the clearance from the ACs. The findings of the survey clearly show that the median number of AC meetings per year for the companies in the survey was four. Therefore, the market may have already prescribed that ACs should meet at least four times a year in general or at least twice a year for firms with market capitalisation of less than S\$75m.

#### **Question 6: Is there a need to impose the requirement that at least one member of the AC should be knowledgeable in financial reporting or has accounting or auditing expertise?**

Empirical research based on US stock markets has shown that ACs with accounting expertise in its membership are negatively associated with earnings restatement, SEC enforcement and suspicious auditor switches, and positively related to corporate credit ratings.<sup>21</sup> The appointment of new AC members with accounting or auditing expertise also induces positive market reactions, suggesting that investors do value accounting experts to look after their investments.<sup>22</sup> There seems to be evidence to suggest that it may be a good practice to have at least one member of the AC who is knowledgeable in financial reporting or has accounting or auditing expertise. It may be desirable for such an individual to be a member of any global organisation for the accountancy profession within the International Federation of Accountants (IFAC).

#### **Question 7: Should there be a tenure limit in the membership of AC?**

It is of interest that the PR-CCG takes the position that *“the independence of directors may be compromised after a long period of service due to their friendship and collegiality with management”*. Independence is a highly critical factor in the effectiveness of a member of AC. Therefore, it is logical to suggest a maximum tenure in the membership of an AC. The PR-CCG proposes a nine years threshold for a director to be deemed to lose its independence. As a member of an AC, this may be shorter. Therefore, a maximum tenure of less than nine years may be a useful starting point.

<sup>21</sup> See Mustafa and Youssef, 2010; Krishnan and Lee, 2009; DeZoort, Hermanson and Houston, 2008; Dhaliwal, Naiker and Navissi, 2007; Abbott, Parker and Peters, 2004.  
<sup>22</sup> See Naiker, 2007.

## REFERENCE

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## ANNEX A

### Companies with a Secondary Listing on the Singapore Exchange

	As at 2 January 2008	As at 30 April 2010
1	AGF Canadian Growth Equity Fund	AGF Canadian Growth Equity Fund
2	Autron Corporation Ltd	Autron Corporation Ltd
3	Australand Property Group	Australand Property Group
4	Benefun International Holdings Ltd	* China Environmental Resources Group Limited (Formerly Benefun International Holdings Ltd)
5	Burwill Holdings Ltd	Burwill Holdings Ltd
6	China Merchant Property Development Company Ltd	* China Merchant Property Development Company Ltd
7	Dairy Farm International Holdings Ltd	Chinavision Media Group Ltd (formerly Shanghai Allied Cement Ltd)
8	Global Tech (Holdings) Ltd	* Dairy Farm International Holdings Ltd
9	Guangzhou Investment Company Ltd	Global Tech (Holdings) Ltd
10	Hong Kong Land Holdings Ltd	Golden Ocean Group Ltd
11	Inch Kenneth Kajang Rubber Public Ltd Company	* Hong Kong Land Holdings Ltd
12	Jardine Matheson Holdings Ltd	Inch Kenneth Kajang Rubber Public Ltd Company
13	Jardine Strategic Holdings Ltd	* Jardine Matheson Holdings Ltd
14	Konami Corporation	* Jardine Strategic Holdings Ltd
15	Koon Holdings Ltd	* Koon Holdings Ltd
16	Lung Kee (Bermuda) Holdings Ltd	Lung Kee (Bermuda) Holdings Ltd
17	Macarthurcook Property Securities Fund	Macarthurcook Property Securities Fund
18	Mandarin Oriental Holdings Ltd	* Mandarin Oriental Holdings Ltd
19	Maruwa Co Ltd	Maruwa Co Ltd
20	Murata Manufacturing Co Ltd	Murata Manufacturing Co Ltd
21	Nomura Holdings Inc	Nomura Holdings Inc
22	Omega Navigation Enterprises Ltd	Omega Navigation Enterprises Ltd
23	Shangri-La Asia Ltd	Shangri-La Asia Ltd
24	SP Ausnet	SP Ausnet
25	Sunway International Holdings Ltd	Sunway International Holdings Ltd
26	TPV Technology Ltd	TPV Technology Ltd
27	Shangri-La Asia Ltd	United Overseas Australia Ltd
28	United Overseas Australia Limited	Yuexiu Property Co Ltd (formerly Guangzhou Investment Company Ltd)

\*Included in the current survey.

Source: [www.sgx.com](http://www.sgx.com)

## 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 2005

### Audit Committee

#### Principle:

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

#### Guidelines:

- 11.1 The AC should comprise at least three directors, all non-executive, the majority of whom, including the Chairman, should be independent.
- 11.2 The Board should ensure that the members of the AC are appropriately qualified to discharge their responsibilities. At least two members should have accounting or related financial management expertise or experience, as the Board interprets such qualification in its business judgement.
- 11.3 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.
- 11.4 The duties of the AC should include:
  - (a) reviewing the scope and results of the audit and its cost effectiveness, and the independence and objectivity of the external auditors. Where the 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 balance the maintenance of objectivity and value for money;
  - (b) reviewing the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance;
  - (c) reviewing the adequacy of the company's internal controls, as set out in Guideline 12.1;
  - (d) reviewing the effectiveness of the company's internal audit function; and
  - (e) making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor.
- 11.5 The AC should meet with the external auditors, and with the internal auditors, without the presence of the company's Management, at least annually.
- 11.6 The AC should review the independence of the external auditors annually.
- 11.7 The AC should review arrangements by which staff of the company 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 the independent investigation of such matters and for appropriate follow up action.
- 11.8 The Board should disclose the names of the members of the AC and details of the Committee's activities in the company's annual report.

## GUIDELINES ON CORPORATE GOVERNANCE FOR BANKS, FINANCIAL HOLDING COMPANIES AND DIRECT INSURERS WHICH ARE INCORPORATED IN SINGAPORE (2010)

By The Monetary Authority Of Singapore  
Audit Committee

Similar to the SINGAPORE CODE OF CORPORATE GOVERNANCE 2005 except for the following additional provision:



- 11.9 The AC should be responsible for reviewing the accounting policies and practices of the Financial Institution
- 11.10 The AC should maintain records of all its meetings, in particular records of discussions on key deliberations and decisions taken

## THE SINGAPORE EXCHANGE LISTING RULES

### Chapter 7: Continuing Obligations

#### Rule 704

- (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.

## AUDIT COMMITTEE GUIDANCE COMMITTEE GUIDEBOOK FOR AUDIT COMMITTEES IN SINGAPORE (2008)

### Audit Committee Composition

#### 1.2 Best Practices:

The AC plays a critical role in ensuring the integrity of the financial statements through its oversight of the company's financial reporting process, the internal control system and the audit function. To discharge this role properly, the AC must ensure that it has individuals with the appropriate qualifications to provide independent, objective and effective oversight.

#### Independence and Objectivity

- 1.2.1 An AC is required to have a minimum of 3 members, although it is common for an AC to comprise more than 3 members, depending on the scope and complexity of its work.
- 1.2.2 The consideration of independence is often a matter of substance rather than of strict compliance with specific rules. The individual Director would be in the best position to determine his independence having regard to his circumstances and relationships with the company and related parties. Below are some additional factors Directors could consider when confirming their independence:
- **Shareholding interest:** A shareholding interest in the company beyond a certain limit. This shareholding interest should include share options and other convertible securities, as well as, all shareholdings held by the Director's immediate family members
  - **Gift or financial assistance:** The receipt of shares or other securities in the company by way of a gift or financial assistance from the company or its major shareholders for the purchase of shares/securities in the company other than pursuant to an approved scheme
  - **Past association:** Past association with a professional adviser as a Director, partner, principal or employee who has, in the immediate past, before the Director's appointment, provided professional services of a significant or material nature or scope to the listed company (and related parties where the listed company has close business or operational interactions with such related parties). An intervening period of one year is sometimes applied for this assessment. Whether such a period is appropriate depends on the circumstances, which the AC member is in the best position to judge
  - **Business dealings:** Material business dealings or involvement with the company or its related parties in the recent past
  - **Representative of shareholder:** A representative of a shareholder appointed specifically to represent or protect the interest of that shareholder whose interests are not the same as those of the shareholders as a whole

- **Financial dependence:** Financial dependence on the listed issuer or its related parties, e.g. if a Director has no other major sources of income and is financially dependent on the fees, he would need to carefully consider whether he can indeed exercise the independent judgement required of him

- 1.2.3 The factors set out in 1.2.2 are not intended to be exhaustive. The Nominating Committee would still need to conduct its own assessment of the individual's independence. Correspondingly, the prospective Director should be diligent in disclosing relationships significant to the company or himself that might potentially compromise his independence (real or perceived), that of the AC or the Board.

#### Qualification for membership

- 1.2.4 As a body, the AC should possess the relevant skills in order to be effective overseers of the financial reporting process. The Code recommends that at least two AC members have accounting or related financial management expertise or experience, which could be interpreted as having some or all of the following:

- **The ability to read and understand financial statements,** including a company's balance sheet, income statement and cash flow statement
- **The ability to understand and assess the general application** of local or other generally accepted accounting principles
- **The ability to ask pertinent questions** about the company's financial reporting process
- **The ability to effectively challenge Management's assertions** on financials and Management's responses when appropriate
- **The ability to understand internal controls and risk factors** relevant to the company's operations, including those relating to complex financial instruments that are in use
- **Experience gained through executive responsibility** for a sizeable business including having or having had responsibility for the finance function, such as being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities
- **Education or professional qualifications** relating substantially to accounting or finance
- **Experience in working** within the areas of corporate finance, financial reporting or accounting

- 1.2.5 AC members should have complementary knowledge and experience in financial matters as well as an understanding and appreciation of the company's business. Each AC member should generally seek to understand:

- **The company's major economic, operating, and financial risks**
- **The company's financial reporting** process
- **The business operations** of the company
- **The social, political, ethical, economic and legal framework** within which the company operates
- **The difference between the oversight function** of the AC and the decision-making function of Management

- 1.2.6 The combination of skills within the AC should reflect broad experience and knowledge relevant in assisting the AC in discharging its responsibilities as set out in its Terms of Reference.

- 1.2.7 Members should be given the opportunity to attend technical and professional development courses to keep abreast of legislative, accounting and other relevant issues. For additional guidance on AC training, please refer to the section on Training.

- 1.2.8 The AC should have the authority to retain external legal counsel, accounting or other advisers, when it considers necessary, without the prior permission of the Board or Management. The AC should be provided the necessary resources to support its work.

#### Selection of Audit Committee Chairman

- 1.2.9 The Chairman is pivotal in ensuring the overall effectiveness of the AC and the efficient planning and conduct of meetings. The Companies Act requires the AC Chairman to be independent, with no involvement

in any executive functions in the company or its related companies. Although there are no restrictions, in practice, a Non-Executive Chairman of the Board would not normally assume the role of AC Chairman

- 1.2.10 The Chairman should have significant financial management related experience, and should be sufficiently knowledgeable about the entity's business and its financial reporting and auditing requirements.
- 1.2.11 The tenure of appointment of the Chairman's office should be determined by the Board.

#### Terms of Reference

- 1.2.12 For the AC to function effectively, the AC should define the scope of its oversight responsibilities and how these are to be discharged. The Terms of Reference for the AC should address the following:
  - **Roles and responsibilities** of the Committee, Chairman and the Committee Secretary
  - **Authority for the AC to seek independent professional advice**, at the company's expense
  - **Provision of direct access** to anyone in the organisation to conduct any investigation to fulfil AC responsibilities
  - **Non-Executive role of the AC** which does not include making business or commercial decisions on behalf of Management (these rest with the Board of Directors)

- **Role of the AC to arbitrate** between Management, external auditors and internal auditors
- **Responsibility in fraud prevention and detection**

1.2.13 **Appendix A2** provides a sample of an AC Terms of Reference.

- 1.2.14 Where the documented Terms of Reference of an AC does not contain terms that the Board expects the AC to oversee, e.g. in relation to risk management, the AC should agree on a revised mandate with the Board.

#### Tenure of the AC

- 1.2.15 The Nominating Committee or the Board should carefully consider the length of term each member should serve. Rotation of AC members refreshes and introduces new perspectives to AC processes. Rotation also creates opportunities for a greater number of Board members to gain better understanding of the functioning of the AC. However, given the complex nature of the role, this has to be balanced with the need to have members who possess the necessary accumulated knowledge to discharge their responsibilities effectively.
- 1.2.16 The Nominating Committee or the Board should consider how rotations can be staggered to ensure continuity of the AC's work and the orderly transfer of accumulated knowledge.

A study commissioned by the  
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and

conducted by the  
**DEPARTMENT OF ACCOUNTING, NUS BUSINESS SCHOOL**

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For over 40 years, the NUS Business School has offered a rigorous, relevant and rewarding business education to outstanding men and women from across the world. The School remains distinctive among the world's leading business schools by offering the best of global knowledge with deep Asian insights, preparing students to lead Asian businesses to the forefront of the world economy and to help global businesses succeed in Asia.

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The NUS Business School has consistently been given top rankings in the Asia-Pacific region by independent publications and agencies such as The Financial Times, Economist Intelligence Unit, and QS Top MBA, in recognition of the quality of its programmes, faculty's research and graduates. In its 2009 rankings, the University of Texas at Dallas ranked our faculty's research No. 2 in Asia and 52nd in the world on the basis of research output. The Financial Times ranked the NUS Business School's MBA programme 23rd in the world, the highest ranking ever achieved by any business school in Singapore. It ranked the NUS Executive MBA 27th in the world as the only Singapore EMBA programme ranked. With this, the NUS Business School now has both the highest ranked Singapore MBA and Executive MBA programmes to date. The QS Global 200 Business Schools 2009: The Employers' Choice Survey rated NUS Business School graduates third in the Asia Pacific. The School is accredited by AACSB International (Association to Advance Collegiate Schools of Business) and EQUIS (European Quality Improvement System), endorsements that the School has met the highest standards for business education.



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