

INSTITUTE OF
CERTIFIED
PUBLIC
ACCOUNTANTS
OF SINGAPORE



A STUDY ON THE PROFILE OF AUDIT COMMITTEES OF LISTED COMPANIES IN SINGAPORE 2009



 **CPA**
SINGAPORE

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THE STUDY ON THE PROFILE OF AUDIT COMMITTEES OF LISTED COMPANIES IN SINGAPORE 2009 WAS COMMISSIONED BY THE CORPORATE GOVERNANCE COMMITTEE OF THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF SINGAPORE

The Corporate Governance Committee of the Institute of Certified Public Accountants of Singapore (ICPAS) initiated the research project which was aimed at providing an understanding of the compliance of the Companies Act and Singapore Corporate Governance Code with respect to Audit Committees (ACs) of listed companies in Singapore and a general description of the state of the ACs of listed companies in Singapore.

The Corporate Governance Committee as well as the Council of ICPAS provided appropriate inputs and advice on the research findings, which helps to improve on the clarity and presentation of the report that is now presented.

ABOUT THE CORPORATE GOVERNANCE COMMITTEE OF ICPAS

The Corporate Governance Committee is a strong advocate of best corporate governance practices. It achieves its objectives by drawing on the experience of auditors, accountants, consultants and business people working in different fields to take a proactive role in the development, implementation and promotion of sound corporate governance.

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 consultative

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 other relevant organizations on matters relating to corporate governance.

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THE PROFILE OF AUDIT COMMITTEES OF LISTED COMPANIES IN SINGAPORE

EXECUTIVE SUMMARY

This survey provides an understanding of the compliance of the Companies Act and Singapore Corporate Governance Code with respect to Audit Committees (ACs) of listed companies in Singapore. It also provides a general description of the state of the ACs of listed companies in Singapore.

The survey covers the period of June 2007 to June 2008 and it involves a total of 675 companies listed on the Singapore Exchange (including 135 companies on the Catalist). The survey covers a total of 1,402 individuals who are members of the AC of these companies and 76% of them sit on only one AC. 223 out of these 1,402 individual members of AC are members of ICPAS. In addition, the chairmen of the ACs of 293 of the 695 listed companies are members of ICPAS. The membership of ACs is male-dominated (95%).

The survey finds that on average ACs met more than three times a year. The median number of members in the AC is three which is the minimum suggested membership size by the CG Code. In fact, only five companies (1% of the sample) have ACs with less than three members. There are no significant differences between firms of different market capitalisation and those listed on the Catalist in terms of size of the AC.

98% of the membership of ACs comprises independent or non-executive directors of

the companies. The survey finds that 36% of members of ACs have post-graduate qualifications. With regards to accounting and financial training and experiences, 14% and 26% of the members of ACs are accounting and financially-trained and experienced respectively. This poses a challenge as to the adequacy of financially-trained individuals to staff ACs as only 46% of the companies sampled have 2 or more financially-trained members in the AC.

The survey finds that on average, 19% of the members of ACs have been with the company for one year or less. In addition, more than 50% of the members of ACs are associated with the companies for five years or less. It is encouraging to note that most of the recent members of ACs are financially-trained. This suggests that the CG Code is having its impact on the companies.

In summary, the survey finds 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 complied with the corporate governance guidelines. In the light of the increasing sophistication of financial transactions and the growing complexities of the globalised marketplace, the representation of individuals with formal professional financial and accounting qualifications on ACs should be kept under constant review by companies.

1. INTRODUCTION

This survey is commissioned by the Institute of Certified Public Accountants of Singapore as part of the 2008 initiatives of the Corporate Governance Committee of the Institute to obtain first hand evidence of the application of the Companies Act, the Singapore Code of Corporate Governance, and the Listing Rules of Singapore Exchange on audit committees (ACs) for listed companies in Singapore. It provides an understanding of the compliance of the various codes and a general description of the state of the ACs of listed companies in Singapore.

2. OBJECTIVES OF THE SURVEY

This survey consists of five major objectives. They are:

- a. Assessment of the composition of the AC;
- b. Assessment of the qualifications of the AC members;
- c. Assessment of the experience of the AC members;
- d. Assessment of the extent of compliance of AC to the Corporate Governance Code; and
- e. Assessment of any other issues deemed pertinent to the research topic.

3. METHODOLOGY OF THE SURVEY

The methodology used in this study is to survey all the companies which have a primary listing on the Singapore Exchange

instead of the usual representative sample approach. Companies which have a secondary listing are generally granted an exemption from following the Singapore Exchange's continuing listing requirements and hence have been excluded from our study. The Singapore Exchange website provides a list of 28 such companies as at 2 January 2008 and these are listed in Annex A.

The survey covers annual reports which were published for the financial period ending between 30 June 2007 and 30 June 2008. All the companies that are listed on the Mainboard and Catalist which have a financial year end within this range and for which a market capitalisation value was available on 29 August 2008 using Datastream have been included in the survey.

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

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

The information for each company in the survey is obtained from the company's annual report, website and all public documents pertaining to the descriptions of its AC and members. Table 1 provides a description of the number of companies used in this survey.

Table 1: Sample Size of the Survey

	Population
Companies with Market Cap of S\$500m and above	101
Companies with Market Cap less than S\$500m	439
Companies listed on the Catalist	135
TOTAL	675

4. LEGISLATION AND CODE OF BEST PRACTICES ON AUDIT COMMITTEE

In Singapore, there are five major sources of regulations or prescription of best practices governing ACs for companies. They 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 (2005) 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 major substance of the above provisions can be summarised into the following points:

- a. It is a legal requirement for all companies listed on the Singapore Exchange to have an AC;¹
- b. The AC must have a minimum of three members;²
- c. The chairman of the AC must be an independent director;³
- 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 judgement in carrying out the functions of the committee;⁴
- e. At least two members of the AC must have accounting or related financial management expertise or experience (hereafter called “financially-trained” individuals);⁵
- f. Specification of the roles and responsibilities of the AC;⁶
- g. Disclosure of names of members of the AC and their activities in the company’s annual report;⁷
- h. Tenure of the AC.⁸

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

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

³ 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 which implicitly assumes that he/she is independent (Section 201B(3)).

⁴ 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”.

⁵ CG Code (2005, para 11.2) and GAC (2008, para. 1.2.4).

⁶ Companies Act (Chapter 50), Section 201B(5); The CG Code (2005, paras. 11.4-11.7); GAC (2008, para. 1.2.12).

⁷ CG Code (2005, para. 11.8).

⁸ GAC (2008, paras. 1.2.15-16).

5. SURVEY FINDINGS

5.1 General Descriptions

All the 675 listed companies in the survey have an AC. All the companies followed the CG Code and disclosed the names of its AC members. Majority of the companies disclosed the number of AC meetings held during the fiscal year while 12 companies did not do so. Three companies had not held any meetings during the fiscal year, of which two are newly-listed companies. The remaining company had made a change in the composition of its AC during the middle of the fiscal year and no meetings had been held since the change. The company did not disclose the meetings conducted by the previous members of the AC. Companies generally followed a minimalist approach in the disclosure of information pertaining to

the AC. Tables 2 and 3 show the distribution and statistics of the frequency of the meetings of the AC. It can be seen that, on average, larger companies tend to have more meetings. More than 90% of the ACs in the sample met at least twice or more a year.

The sample of 675 companies has a total of 2,156 members in their ACs. The total chairmanship and membership are made up of 434 and 1,402 individuals respectively. The distribution of the AC chairmanship and membership of the individual members is presented in Table 4. The highest number of ACs held by any individual is 10. The highest number of chairmanship of AC held by any individual is 8.

The sample shows that 223 of these 1,402 individual members of the ACs are members of ICPAS. In addition, 130 of the individual

Table 2 : Distribution of the Frequency of AC Meetings

Number of AC Meetings	No of Companies	Percentage
0	3	0.4%
1	20	3.0%
2	168	24.9%
3	104	15.4%
4	263	39.0%
5	57	8.4%
6	29	4.3%
7 to 12	19	2.8%
No Disclosure	12	1.8%
TOTAL	675	100.0%

Table 3 : Statistics on the Frequency of AC Meetings

Statistics	Market Cap of S\$500m and above	Market Cap of less than S\$500m	Catalist	Total
Average	4.6	3.5	3.0	3.6
Median	4	4	3	4
Minimum	0	1	0	0
Maximum	12	12	8	12

chairman of the ACs are members of ICPAS. With respect to the 1,402 individuals who are members of the AC, 95% of them are male while the rest are female. Table 5 shows the breakdown of the chairmanship and membership of AC according to gender on an overall basis (inclusive of multiple memberships). It should be noted that one of the companies has not assigned a chairman to its AC since the resignation of its previous

AC chairman. Hence the number of chairmen stands at 674 while the total number of companies surveyed is 675.

5.2. Assessment of the Composition of the AC

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

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

Chairmanship in AC	No of Individuals	Percentage	Membership in AC	No of Individuals	Percentage
1	313	72.1%	1	1,063	75.8%
2	63	14.5%	2	166	11.8%
3	28	6.5%	3	69	4.9%
4	13	3.0%	4	49	3.5%
5	8	1.8%	5	17	1.2%
6	5	1.2%	6	17	1.2%
7	3	0.7%	7	8	0.6%
8	1	0.2%	8	4	0.3%
9	0	0.0%	9	7	0.5%
10	0	0.0%	10	2	0.1%
TOTAL	434	100.0%	TOTAL	1,402	100.0%

Table 5 : Distribution of AC Membership According to Gender

	Chairmen		Members		Total	
Male	659	98%	1393	94%	2,052	95%
Female	15	2%	89	6%	104	5%
TOTAL	674	100%	1,482	100%	2,156	100%

Table 6 : Summary Statistics of Number of Members in Companies and AC

	Market Cap of S\$500m and above				Market Cap of less than S\$500m				Catalist			
	Min	Max	Mean	Med	Min	Max	Mean	Med	Min	Max	Mean	Med
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 respect to the number of members in the AC, the median number of members in the AC is the same for all three categories of companies (3) while the average is within a tight range of 3.2 to 3.6 members. Of interest is that there are five companies which have only two members in their AC. Out of these five companies, four are listed in Catalist while the remaining company has a market capitalisation of less than \$500m. Four of these companies have not replaced an AC member who has either resigned or is deceased as at the date of the annual report while the remaining company has not provided sufficient information on why a third member has not been appointed. Table 7 suggests that companies (82% of the sample) gravitate towards the minimum three members of AC as prescribed in the Companies Act and the CG Code.

The distribution of membership of AC by the three types of companies is shown in Table 7.

The types of directorship of the members of the AC are shown in Table 8. The Companies Act allows members in the AC to be executive directors so far as the majority comprises of 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 AC to be non-executive directors and the chairman must be an independent director. For the company which has a non-executive chairman in its AC, there is insufficient information to determine whether the chairman is an independent director. It is interesting to note that one of the companies has assigned an alternate director to its AC after a previous member had resigned.

Table 7 : Distribution of Membership of AC by Types of Companies

	Market Cap of \$500m and above	Market Cap of less than S\$500m	Catalist	Total	%
Two members in the AC	0	1	4	5	1%
Three members in the AC	67	373	113	553	82%
Four members in the AC	26	60	17	103	15%
Five members in the AC	6	4	1	11	2%
Six members in the AC	1	0	0	1	0%
Seven members in the AC	1	1	0	2	0%
TOTAL	101	439	135	675	100%

Table 8 : Relationship between Members of AC and Companies

	Chairmen		Members		Total	
Independent Director	673	100%	1,186	80%	1,859	86%
Non-executive Director	1	0%	253	17%	254	12%
Executive Director	0	0%	42	3%	42	2%
Alternate Director	0	0%	1	0%	1	0%
TOTAL	674	100%	1,482	100%	2,156	100%

5.3 Assessment of the Qualifications of the AC Members

Table 9 provides a summary of the formal educational qualification of the chairmen and members of the AC.

Table 9 suggests that a significant proportion of the members of AC (36%) have post-graduate qualifications while only a small percentage (4%) does not possess a degree. Table 10 provides a summary of the major areas of education for the chairmen and members of the AC.

Table 9 : Distribution of Educational Qualifications of Members of AC

	Chairmen		Members		Total	
	Count	Percentage	Count	Percentage	Count	Percentage
Doctorate/LLD	49	7%	134	9%	183	8%
Post-Grad Degree/MBA/LLM/MBBS	172	26%	428	29%	600	28%
Bachelor / LLB	284	42%	595	40%	879	41%
Post-Secondary / Diploma	19	3%	62	4%	81	4%
Secondary	0	0%	5	0%	5	0%
Insufficient Information	150	22%	258	18%	408	19%
TOTAL	674	100%	1,482	100%	2,156	100%

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

	Chairmen		Members		Total	
	Count	Percentage	Count	Percentage	Count	Percentage
Accountancy	144	21%	121	8%	265	12%
Finance	18	3%	33	2%	51	2%
Business Administration	159	24%	336	23%	495	23%
Economics	47	7%	105	7%	152	7%
Law	43	6%	251	17%	294	14%
Engineering	45	7%	137	9%	182	8%
Arts	29	4%	72	5%	101	5%
Science	20	3%	73	5%	93	4%
Others	14	2%	65	4%	79	4%
Insufficient Information	155	23%	289	20%	444	21%
TOTAL	674	100%	1,482	100%	2,156	100%

Table 10 shows that only 14% of the members of AC have their major areas of education in accountancy or finance. In addition, 283 companies (40.7% of the sample) do not have an ICPAS member on the AC. This immediately poses a challenge as to how companies can satisfy the requirement that at least two members of the AC should be financially-trained based on formal academic qualifications or training.

5.4 Assessment of the Experience of the AC members

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

Despite the fact that only 14% of the members of AC are accountancy or finance trained, Table 11 shows that 26% of the members of AC have accountancy and finance as their major full-time experiences. This will augment the requirement for financially-trained individuals for ACs since the 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. It is noteworthy that more than 50% of the chairmen of ACs do not have full-time accountancy and finance experiences. It is also interesting to observe that 50% of the members of AC have senior management experiences.

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

	Chairmen		Members		Total	
Accountancy/Auditing	215	32%	110	7%	325	15%
Banking / Finance / Investment	94	14%	141	10%	235	11%
Legal Practices	46	7%	250	17%	296	14%
Senior Management	284	42%	801	54%	1,085	50%
Others	33	5%	170	11%	203	9%
Insufficient Information	2	0%	10	1%	12	1%
TOTAL	674	100%	1,482	100%	2,156	100%

Table 12 : Number of Years where Members of AC have been with the Company

	Chairmen		Members		Total	
Less than or equal to One Year	112	17%	302	20%	414	19%
More than One Year to Five Years	240	35%	559	38%	799	37%
More than Five Years to Ten Years	127	19%	235	16%	362	17%
Greater Than Ten years	87	13%	163	11%	250	12%
Insufficient Information	108	16%	223	15%	331	15%
TOTAL	674	100%	1,482	100%	2,156	100%

Table 12 shows the statistics on the number of years the individuals have been in the company.

Table 12 shows that 56% of the members of AC have been associated with the companies for five years or less. This may be due to the application of the reform in corporate governance arising from the implementation of the CG Code in 2005 and the relevant changes in the Companies Act.

5.5 Assessment of the Extent of Compliance of AC to the Corporate Governance Code

With respect to the compliance of the Companies Act and CG Code, the survey

finds that there are 42 companies which have executive directors on their ACs. This is not in compliance with the CG Code but they do not violate the Companies Act. Table 13 shows the composition of the ACs where there are executive directors.

Of the 42 executive directors who have been appointed to the AC, ten of them (24%) hold the position of executive chairman in the company. Five of the companies (12%) have their chief executive officer/ managing director in the AC.

Some of the commonly cited explanations by these companies for having an executive director in the AC are as follows:

- a. The size and scope of the company's operations and the costs involved do not warrant the appointment of an additional independent director;
- b. The AC will benefit from the experience and the expertise of the executive director;
- c. The company has only two non-executive directors.

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

One of the major areas of concern is the formal financial and accounting qualification and experience of the members of AC as shown in Tables 10 and 11. Table 14 shows

Table 13 : Companies which have ACs comprising of Executive Directors

Number of AC Members in the Company	Proportion of Executive Directors/AC Members		
	20%	25%	33%
3	0	0	32
4	0	9	0
5	1	0	0
TOTAL	1	9	32

Table 14 : Summary Statistics of AC Members who Are Financially-Trained

No of Financially-Trained Members in AC	Market Cap of S\$500m and above		Market Cap of less than S\$500m		Catalist		Total	
	No of Cos	%	No of Cos	%	No of Cos	%	No of Cos	%
0	14	14%	48	11%	13	10%	75	11%
1	42	42%	201	46%	48	36%	291	43%
2	36	36%	137	31%	59	44%	232	34%
3	7	7%	52	12%	14	10%	73	11%
4	2	2%	1	0%	1	1%	4	1%
TOTAL	101	100%	439	100%	135	100%	675	100%

the summary statistics on the number of AC members who are with formal financial or accounting training or experiences.

Clearly the requirement of at least two financially-trained members for each AC is not met in most of the companies as less than half of the companies (46%) met this requirement. On the other hand, if we include members of AC who have senior management experiences and it is assumed that such senior managers have accounting and financial literacy, the situation is much

better as shown in Table 15 which includes Senior Management as a sufficient substitute for accounting and financial training.

With the inclusion of Senior Management experiences as proxy for financial literacy, only 8% of the sample does not meet the financial literacy requirement of the CG Code.

To get a better understanding as to whether the CG Code has resulted in a greater number of financially-trained individuals joining ACs, Table 16 provides a breakdown

Table 15 : Summary Statistics of AC Members who are Financially-Trained (including those who have Senior Management Experience)

No of Financially-Trained Members in AC	Market Cap of S\$500m and above		Market Cap of less than S\$500m		Catalist		Total	
	No of Cos	%	No of Cos	%	No of Cos	%	No of Cos	%
0	0	0%	2	0%	0	0%	2	0%
1	3	3%	33	8%	18	13%	54	8%
2	32	32%	151	34%	74	55%	257	38%
3	48	48%	228	52%	40	30%	316	47%
4	15	15%	23	5%	3	2%	41	6%
5	2	2%	1	0%	0	0%	3	1%
6	1	1%	1	0%	0	0%	2	0%
TOTAL	101	100%	439	100%	135	100%	675	100%

Table 16 : Relationship between Number of Years where Members of AC have been with the Company and Number of AC Members who are Financially-Trained

	Chairmen			Members			Total		
	No	Trained*	%	No	Trained*	%	No	Trained*	%
Less than or equal to One Year	112	95	85%	302	130	43%	414	225	54%
More than One Year to Five Years	240	177	74%	559	185	33%	799	362	45%
More than Five Years to Ten Years	127	76	60%	235	86	37%	362	162	45%
Greater Than Ten Years	87	45	52%	163	40	25%	250	85	34%
Insufficient Information	108	78	72%	223	83	37%	331	161	49%
TOTAL	674	471	70%	1,482	524	35%	2,156	995	46%

* Financially trained.

of the relationship between the years of association with the company for AC members and the number of AC members who are financially-trained.

Table 16 suggests that newly-appointed chairmen to ACs generally have a higher percentage of being financially qualified as compared to those who had been with the company for some time. This is also true for newly-appointed members to ACs. 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.

Of significant interest is that most, if not all, of the above information in this survey can be obtained from the annual report and websites of the companies. This suggests that the guidelines requiring companies to disclose the names of the AC members and the details of AC activities, particularly the number of AC meetings, have been effectively complied.

5. 6 Assessment of any Other Issues Deemed Pertinent to the Research Topic

One of the major areas in which this study is unable to document is the effectiveness of the AC in carrying out its duties. On the

surface, the Companies Act and CG Code have resulted in structural changes in the composition of the AC. Nonetheless, this study is unable to document whether these structural changes actually result in better corporate governance for the companies. A further study will have to be done to document the effectiveness of the AC under the new regime.

6. Conclusion

This survey provides an understanding of the compliance of the various Legislation and Code of Corporate Governance of Singapore on listed companies. The general findings are 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 complied with the corporate governance guidelines. In the light of the increasing sophistication of financial transactions and the growing complexities of the globalised marketplace, the representation of individuals with formal professional financial and accounting qualifications on ACs should be kept under constant review by companies. This concern can be augmented by members of AC with senior management experiences but the long run solution is to get more financially-trained individuals to become members of ACs.

ANNEX A

COMPANIES WITH A SECONDARY LISTING ON THE SINGAPORE EXCHANGE (AS AT 2 JANUARY 2008)

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

1	AGF CANADIAN GROWTH EQUITY FUND
2	AUTRON CORPORATION LTD
3	AUSTRALAND PROPERTY GROUP
4	BENEFUN INTERNATIONAL HOLDINGS LTD
5	BURWILL HOLDINGS LIMITED
6	CHINA MERCHANTS PROPERTY DEVELOPMENT CO LTD
7	DAIRY FARM INTERNATIONAL HOLDINGS LTD
8	GLOBAL TECH (HOLDINGS) LIMITED
9	GUANGZHOU INVESTMENT COMPANY LTD
10	HONGKONG LAND HOLDINGS LIMITED
11	INCH KENNETH KAJANG RUBBER PUBLIC LTD COMPANY
12	JARDINE MATHESON HOLDINGS LTD
13	JARDINE STRATEGIC HOLDINGS LTD
14	KONAMI CORPORATION
15	KOON HOLDINGS
16	LUNG KEE (BERMUDA) HLDGS LTD
17	MACARTHURCOOK PROPERTY SECURITIES FUND
18	MANDARIN ORIENTAL INTERNATIONAL LTD
19	MARUWA CO. LTD
20	MURATA MANUFACTURING COMPANY LTD
21	NOMURA HOLDINGS INC.
22	OMEGA NAVIGATION ENTERPRISES INC.
23	SHANGHAI ALLIED CEMENT LTD
24	SHANGRI-LA ASIA LIMITED
25	SP AUSNET
26	SUNWAY INTERNATIONAL HOLDINGS LTD
27	TPV TECHNOLOGY LIMITED
28	UNITED OVERSEAS AUSTRALIA LIMITED

Source: www.sgx.com

ANNEX B

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.

ANNEX B

SINGAPORE CODE OF CORPORATE GOVERNANCE 2005

AUDIT COMMITTEE

14

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

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:
- 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;
 - 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;
 - reviewing the adequacy of the company's internal controls, as set out in Guideline 12.1;
 - reviewing the effectiveness of the company's internal audit function; and
 - 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.

ANNEX B

GUIDELINES ON CORPORATE GOVERNANCE FOR BANKS, FINANCIAL HOLDING COMPANIES AND DIRECT INSURERS WHICH ARE INCORPORATED IN SINGAPORE (2005) BY THE MONETARY AUTHORITY OF SINGAPORE

AUDIT COMMITTEE

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

Additional Guideline of the Authority

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

ANNEX B

THE SINGAPORE EXCHANGE LISTING RULES

CHAPTER 7: CONTINUING OBLIGATIONS

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.

ANNEX B

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 fulfill 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.

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ABOUT THE CORPORATE GOVERNANCE AND FINANCIAL REPORTING CENTRE

The Corporate Governance and Financial Reporting Centre is a unit of NUS Business School at the National University of Singapore. Its mission is to research, disseminate and promote best practices in corporate governance and financial reporting.

A hallmark of the Centre is the strong industry orientation in its activities and projects. The current and proposed portfolio of activities of the Centre includes topics such as boardroom practices, executive compensation, creative accounting, quarterly reporting and investor relations. It encourages a convergence of academics and practitioners around some of the key challenges of corporate governance and financial reporting in organisations. Being research-led and industry-oriented, the centre is at the cutting edge of theory and practice and it helps to bridge the gap between leading academic work and the needs of practitioners.

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