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SINGAPORE ACCOUNTANCY CONVENTION

Corporate disclosures must improve for financial reporting to stay relevant

Study: investors say information is too aggregated, or the disclosures are insufficient or are difficult to understand

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AUG 26, 2016 5:50 AM

Singapore

SINGAPORE investors have much confidence and trust in the financial information put out by companies here, but more can be done, by companies, accountants and regulators alike, to improve the quality of information being produced.

That was the overarching message conveyed on Thursday at the year's most heavily attended accountancy conference - the Singapore Accountancy Convention (SAC), held jointly by the Accounting and Corporate Regulatory Authority (Acra) and the Institute of Singapore Chartered Accountants (Isca).

The over-900-strong crowd heard that both retail and institutional investors consider a company's financial statements to be their most important source of information for decision-making, but that these statements still have a long way to go in providing needed clarity and transparency to investors.

This finding came from a study commissioned by Acra and Isca and titled "Into the Minds of Investors: Investors' Views of Financial Reporting, Audit and Corporate Governance"; it was authored by Associate Professor Mak Yuen Teen of the NUS Business School.

Prof Mak began his presentation by joking that he was sure the only thing in the minds of many of the morning's participants was whether there were Pokemon creatures to catch in the convention centre. "There were, but they've all been arrested by the regulators," he quipped.

His presentation was, however, weightier.

He said that 81 per cent of the 171 retail investors and 94 per cent of 33 institutional investors surveyed in April and May rated financial statements as the most important source for investment decision-making, compared to other information sources such as company announcements, one-to-one meetings, conference calls and analyst reports.

However, he added that both groups of investors also said that the usefulness of financial statements, these days is limited by too much aggregation of information, insufficient disclosures and disclosures that are difficult to understand.

He called on company management, directors and audit committees to focus on providing high-quality disclosures that are useful, sufficient and understandable.

But he added that investors also have an important part to play. The study found that institutional investors spend considerably more time reading the financial statements of the companies they invest in: 35 per cent of institutional investors spend more than two hours reading financial statements, compared with only 9 per cent of retail investors.

Retail investors could also participate more actively at annual general meetings (AGMs). Half of those surveyed said they do not attend even one of these meetings in a year; 70 per cent said they have never asked a question at an AGM.

Among institutional investors, however, more than half said they had more than 50 one-on-one meetings with company management in a year.

"Investors should continue to hold companies to high standards of financial reporting. Greater transparency and clarity in disclosures will help them derive an accurate picture of the business, which is vital for investment decisions," the professor said.

The study also found that investors place great value in an audit, with about five times more investors in both groups having confidence in audited financial statements than non-audited financial statements.

The survey report also said that investors recognise the significance of auditor independence to audit quality. They view factors such as the audit fees, tenure of audit firm and partner, non-audit fees and the nature of non-audit services as important considerations on auditor independence.

Senior Minister of State for Law and Finance Indranee Rajah, the guest-of-honour at the event, responded to a number of the survey findings - on investors' perception of the value of an audit, in particular - by announcing a slew of initiatives undertaken by the industry regulator, Acra.

For example, one of the survey findings was that investors would be more likely to engage auditors with the impending new requirement that auditors indicate Key Audit Matters (KAMs) in financial reports under the enhanced auditor-reporting standards from January 2017.

Ms Rajah said that Acra is working with Isca and investor group Securities Investors Association (Singapore), or Sias, to develop a guide for investors to explain these new disclosures; the guide will show investors how they can use these enhanced audit disclosures to obtain greater insights into the company's financial statements, and is slated to be issued early next year.

The survey also found that the bulk of investors also want more transparency and improved interaction with audit committees. More than 80 per cent want audit committees to use audit-quality indicators (AQIs) when evaluating appointment of auditors.

"In this regard, Acra introduced an AQIs disclosure framework in October last year," Ms Rajah said. "The framework contains eight comparable audit-quality markers that can be used to gauge the quality of the audit firm and audit engagement."

One AQI target is for an auditor to audit no more than five listed companies with the same year-end; another is for the audit-engagement partner and manager hours to be at least 20 per cent of total hours spent by the audit team in an engagement.

Ms Rajah also touched on Acra's 10th Practice Monitoring Programme (PMP) public report, which was released at the event. The programme assesses the audits of Singapore-listed companies to ensure they comply with local standards.

The report showed a steady improvement in audit quality: comparing 2016 results to those of 2015, there was a 27 per cent reduction in the percentage of inspected audit engagements with at least one finding. An inspection finding is raised when Acra finds that audit work performed in significant risk areas did not comply with auditing standards, though it does not necessarily mean an audit failure.

Ms Rajah said Acra will soon begin publicly naming auditors who fail a second or revisit inspection and who are issued a hot review (when an auditor needs his work reviewed by another auditor) or a restriction order (restricting the auditor from performing certain audits); this practice is aimed at deterring "repeated audit deficiencies" and upholding market transparency.

Regulatory programmes and initiatives such as the PMP were well-received by investors in Prof Mak's study. More than 75 per cent of the investors surveyed agreed that independent regulatory oversight programmes over financial reporting and audits were important in ensuring good-quality financial reporting.

But, the study also found that there was little awareness and understanding of the specific regulatory initiatives employed, suggesting that more outreach efforts by professional bodies and regulators are needed.

Prof Mak commented: "While investors have a high level of trust, especially in the quality of financial reporting and audit of Singapore-incorporated companies, boards of directors, audit committees and management of companies need to continue to improve these areas and raise standards of corporate governance. Investors also need to do their part in engaging with companies and auditors, in order to maximise the benefits from Acra's regulatory programmes and initiatives."

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