

Risk management a growing challenge for audit committees

But AC chairmen differ in views on what the risk management role entails, says ISCA study

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RISK management has become a greater challenge for the audit committees (ACs) of Singapore-listed companies, but there may be a lack of consensus about the committee's role on that subject, according to a study commissioned by the Institute of Singapore Chartered Accountants (ISCA) and conducted by the National University of Singapore (NUS).

The chairmen of ACs also told researchers smaller companies face challenges in attracting quality directors to join their ACs, and that it is arbitrary to dismiss the independence of directors after nine years.

"Based on our studies, there is significant progress and a high degree of compliance by audit committees in Singapore with local regulations and guidelines since 2009 on almost all fronts," ISCA corporate governance committee chairman Ho Tuck Chuen said. "However, the study notes that there are signs of plateauing. The interviews in the study also show that audit committee chair in small companies, face significantly more challenges in coping with the demands on the audit committee."

The study found general improvement in compliance among ACs compared to the last two surveys, which were conducted in 2009 and 2011.

ACs met more often in 2015 than in previous years, with 78.5 per cent of the surveyed companies' ACs meeting at least four times a year in 2015 compared to just 71.8 per cent of the companies in 2011.

The number of AC members with multiple AC appointments also reduced slightly, to 28.3 per cent in 2015 from 29.8 per cent in 2011 among AC chairmen, and to 17.1 per cent in 2015 from 18.4 per cent in 2011 among other AC members.

Gender diversity on ACs has also improved, with women holding 4.6 per cent of AC chairs in 2015 compared to 3.0 per cent in 2011. In total, women accounted for 7.6 per cent of AC appointments in 2015, up from 5.6 per cent in 2011.

The percentage of AC appointees with full-time experience in accountancy, audit, banking, finance or investment increased to 38.2 per cent in 2015, from 35.4 per cent in 2011.

In terms of whistleblowing, 93.9 per cent of companies disclosed whistleblowing policies, but only 37.9 per cent also shared the procedure for raising concerns under said policies.

With the increased importance of risk management under current guidelines, 83.8 per cent of companies have given their ACs the basic responsibility for overseeing risk management and internal control. Only 14.5 per cent had separate board risk committees.

While most companies disclosed their assessments of the adequacy of internal controls and risk management, only a minority also gave an assessment of the effectiveness of those controls.

Through interviews with individual AC chairmen, the researchers also found that "different chairmen had different perspectives concerning the role of AC with regards to risk management".

The interviews also revealed differences between ACs for large and small listed companies. Larger companies tended to have resources to support the AC, making it easier for larger companies to attract quality members.

Smaller companies, however, faced difficulties in attracting good AC members given the higher risk and limitations on directors' fees.



ISCA's Ho Tuck Chuen says there is significant progress and a high degree of audit committee compliance with regulations since 2009, but the study notes signs of plateauing. THE BUSINESS TIMES FILE PHOTO

A gap also existed in how differently sized companies viewed the appointment of external auditors. While larger companies valued quality much more than cost, almost to the point of indifference to price, smaller companies counted auditors' fee as "a very important criterion" in the selection process. There was however general resistance to publishing selection criteria for appointing or re-ap-

pointing external auditors among the AC chairmen.

While the chairmen valued independence as among the key traits of a good AC member, there was broad agreement that a nine-year limit on independence seemed "arbitrary". Among the feedback given was the importance of having AC members who had been spent enough time at the company to have gone through at least one business cycle.