MOORE STEPHENS LLP
CHARTERED ACCOUNTANTS OF SINGAPORE

Highlights of the Guidebook for Audit Committees in Singapore

Background of the Guidebook for Audit Committees (“AC”) in Singapore

The first edition of the Guidebook was developed by the Audit Committee Guidance Committee and published in October 2008. Over the past 6 years, there have been changes in corporate legislation and regulations as well as to both the local and overseas corporate governance landscapes. In particular, the Code of Corporate Governance issued on 2 May 2012 contains revisions to the principles in relation to Accountability and Audit. There was hence a need to review the Guidebook to ensure its continued relevance.

The second edition Guidebook was issued on 19 August 2014 to include the changes, providing more case studies and templates for AC to use as guidance in fulfilling their roles. AC must be vigilant in monitoring the governance and oversight of companies. This revised Guidebook will serve the needs of current and future AC as they continue to play their important role.

Overview of the Summary

This summary aims to highlight key areas in the Guidebook for Audit Committes in Singapore (2nd Edition) to provide users an overview of the best practices for audit committees.

This summary consists of six sections:

1. AC Composition
2. AC Agenda
3. Risk Management and Internal Controls
4. Internal Audit
5. Financial Reporting
6. External Audit

Section 1: AC Composition

– **Independence and Objectivity***: The consideration of independence is often a matter of substance rather than of strict compliance with specific rules.

– **Role of NC in AC Appointments**: The NC should determine the independence of a director and whether a prospective director is appropriately qualified to discharge his responsibility.

– **Selection of AC Members**: The combination of skills within the AC should reflect broad experience and knowledge relevant in assisting the AC in discharging its responsibilities.

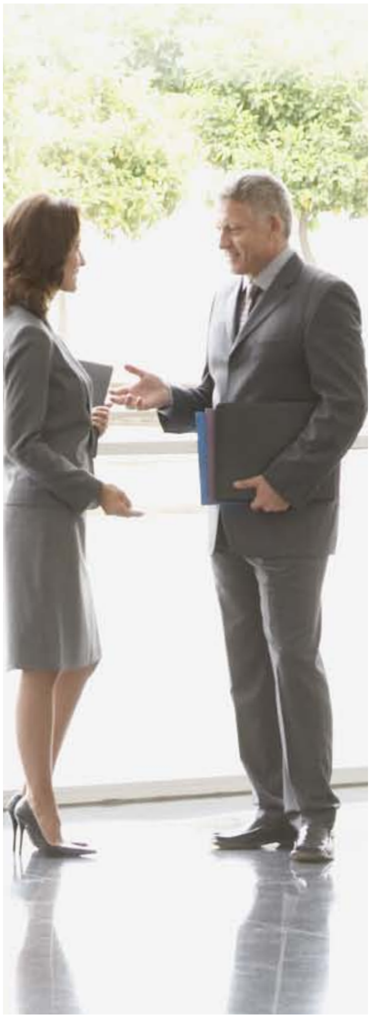
– **Selection of AC Chairman**: The AC Chairman should be independent, with no involvement in any executive functions in the company or its related companies and have recent accounting or related financial management expertise or experience and knowledge of the entity's business.

– **Terms of Reference***: The AC should define the scope of its oversight responsibilities and how these are to be discharged.

– **Tenure of the AC**: The NC or the Board should carefully consider the length of term each member should serve by taking in consideration of rotation and accumulated knowledge of the members.

Section 2: AC Agenda

– **Interaction with the Board and Delegation of Responsibilities***: The Board should establish an Audit Committee with written Terms of Reference and the Board may delegate the authority to make decisions to the AC without abdicating its responsibility, such delegation should be disclosed.



– **Tone from the Top***: The Board should set the tone on the importance of an adequate and effective risk management and internal controls system.

– **Setting the Annual Workplan**: The AC should set out the annual workplan at the start of the year and the AC Chairman should determine the appropriate frequency and timing of its meetings.

– **AC Calendar**: The AC should meet as frequently as required.

– **Meeting Agenda**: The AC Chairman should review the meeting agenda to ensure that critical issues are identified and prioritised.

– **Conduct of Meeting***: The AC Chairman should ensure that the meeting is scheduled on a date/time convenient to all members and the AC meeting minutes should be given to the AC Chairman for initial approval before circulating to the AC members for comments.

– **Performance Assessment***: On an annual basis, the Committee could review its performance against the Terms of Reference of the Committee and the results may be reviewed with the Board.

– **Training***: The AC members should be continuously updated with the changes in the regulatory environment and industry best practices, through appropriate training and there should be a formal process to brief new Committee members.

– **Interested Person Transactions***: The AC should properly discharge its oversight role over transactions related to individuals who have significant influence over the decision-making process in the company and should ensure that the terms are on arm's length, normal commercial terms and are not prejudicial to the company.

– **Whistle-blowing***: The scope of the whistle-blowing policy should at minimum, address the regulatory obligations of the AC as set out in the Code and the Listing/Catalist Rules and the AC may conduct an annual review of the whistle-blowing policy.

*Revised guidelines / additional guidance

Section 3: Risk Management and Internal Controls

– **Risk Governance and Oversight Structures***: In determining the appropriate risk governance structure, consideration must be given to key factors, such as the size, complexity, geographic spread and significant risks facing the organization.

– **Board Assurance Framework***: The AC members should clarify the 'holistic' Board Assurance Framework, the communication between and across the 'Lines of Defence' and establish a process for capturing and reporting the results generated from the Board Assurance Framework.

– **ERM and Internal Control Framework***: The AC members should ensure that there is an ERM framework in place and an appropriate 'risk-aware' culture in the organisation.

– **Assurance Framework***: AC members should confirm their understanding of the company's assurance programme over risk management and internal controls and assess the adequacy and effectiveness of Management's efforts in risk management and internal controls.

– **Control Deficiency Evaluation***: The AC should review the adequacy and effectiveness of the risk management and internal control systems. It is important that ACs confirm a common understanding of the concepts in relation to identifying deficiencies in the risk management and internal control systems.

– **Disclosure Requirements***: The Board and AC should receive assurance from CEO and CFO that financial records are maintained and that the risk management and internal control systems are effective which should be disclosed.

Section 4: Internal Audit

– **Establishing an IA Function***: In determining the Right IA Model, the AC should consider factors including company's scale, corporate culture, role of IA function, availability of relevant expertise in-house, ability to recruit and retain competent & skilled internal auditors, need to maintain institutional knowledge and culture and rights given to the company. IA is an important function in assisting the Board in discharging its duties.

– **Considerations for an In-house IA Function**: The AC should support the IA function in maintaining its independence and objectivity.

– **Considerations for an Outsourced IA Function**: When selecting the service provider, the AC should consider the service provider's expertise, experience and resources, audit methodology and approach, understanding of service requirement, fees and fees assumptions, contract terms and independence.

– **Common Issues relating to the AC's Oversight on the IA Function***:

- Assessing of the adequacy of the IA plan
- Key findings during reviewing the IA report
- Assessing of the efficiency, adequacy, and effectiveness of the IA function
- Managing disagreements between IA function and Management
- Handling feedbacks from IA regarding weaknesses in internal controls

*Revised guidelines / additional guidance

Section 5: Financial Reporting

– Competence of the Finance Team: The AC should be satisfied that the CFO is appropriately qualified and competent, and that he/she has adequate staff resources with the appropriate experience and expertise, and that the CFO is able to perform his/her duties.

– Overseeing the Integrity of Financial Statements*: During the AC's review of the full year and quarterly financial statements, its discussions (every quarter) with Management and/or the external auditors should address the numerous qualitative factors that can affect financial statements.

– Other Key Financial Information: The AC could ask Management to provide a summary of key financial information on a monthly basis (rather than quarterly), so that the AC can be alerted to any potential financial problems within the company early on, and apply appropriate remedial actions to address the problems.

– Factors Indicative of Weaknesses in Financial Reporting Process: AC should also be alerted to any weaknesses in the company's financial reporting process

- High turnover of key accounting personnel
- Frequent significant changes in accounting practices and estimates
- Numerous late adjustments
- Unexplained significant fluctuations
- Material variances between physical and book value
- Material variances between confirmations received and book values
- Numerous audit adjustments
- Numerous Management letter points
- Frequent change of internal/external auditors and Independent Directors

Section 6: External Audit

– Role of External Auditors: The AC should therefore review the external auditors' engagement letter for a clear communication of the external auditors' role and responsibilities.

– Audit Scope and Approach*: The AC should obtain a good understanding of the scope of the external auditor's work and the approach they will be adopting.

– Management Letter: The AC should obtain and review a copy of the Management letter.

– Cost-effectiveness*: AC should consider in evaluating the cost effectiveness of the entity's audit function (both IA and EA).

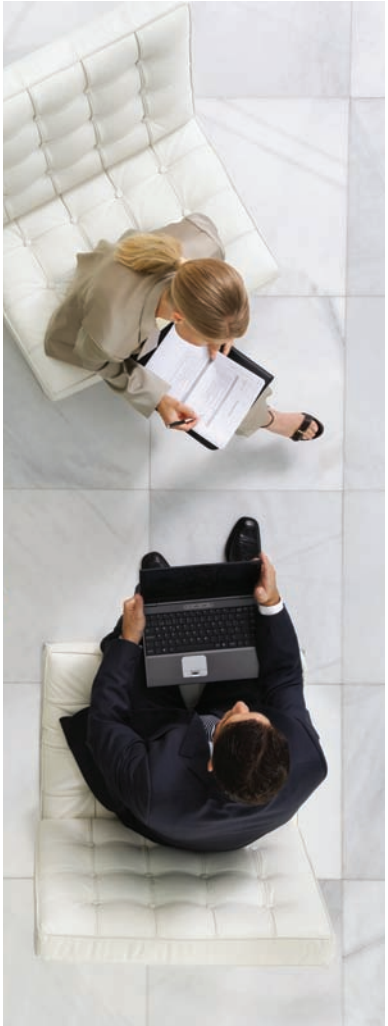
– Private Session with External Auditors*: The Code recommends that the AC should meet with the external auditors without the presence of the company's Management, at least annually.

– Engagement of External Auditors*: The AC should make recommendations to the Board on the proposals to the shareholders on the appointment, reappointment and removal of external auditors as well as approve the remuneration and terms of engagement of the external auditors.

– Auditor's Independence*: The AC should give careful consideration to the actual and perceived independence of the external auditors and establish a formal and transparent framework to ensure that the external auditor's ability to conduct the audit is not impaired, or perceived to be impaired.

*Revised guidelines / additional guidance

Tips for AC



SECTION 1: AC COMPOSITION

1. Formalise/confirm the role and scope of AC with Board
2. Review the existing terms of reference and agree with the Board

SECTION 2: AUDIT COMMITTEE AGENDA

1. Increase appropriate training for AC members
2. Satisfy with the level of assurance provided by framework for IPTs
3. Focus on the controls over the approval and pricing of IPTs

SECTION 3: RISK MANAGEMENT AND INTERNAL CONTROLS

1. Clarify the existing mechanisms in place to check adequacy and effectiveness
2. Increase 'risk-awareness' required for ACs in key areas
3. Increase AC scrutiny of assurance providers in terms of scope and coverage

SECTION 4: INTERNAL AUDIT

1. Ensure IA function is efficient, adequate and effective
2. Demonstrate tone from the top in support of the IA function
3. Review the scope and coverage of IA

SECTION 5: FINANCIAL REPORTING

1. Focus on financial reporting integrity
2. Understand and challenge more about the finance team composition/competencies
3. Understand and challenge areas of uncertainties and/or complex matters

SECTION 6: EXTERNAL AUDIT

1. Monitor auditor's independence, quality and competencies
2. Challenge more about external audit scope, coverage, observations, root causes and mitigating actions regarding financial reporting integrity

Conclusion

Overall, the AC should confirm the role and scope of AC with Board, review existing terms of reference to discharge their responsibilities effectively. To help execute its role and responsibilities, the AC may develop an annual calendar and meeting agendas. There should be greater AC scrutiny of assurance providers in terms of scope and coverage to ensure adequacy and effectiveness of risk management and internal controls. At the same time, AC should continue to focus on financial reporting integrity and monitor external auditor's independence, quality and competencies.

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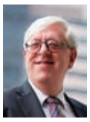

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