

KEYNOTE ADDRESS BY MR PETER ONG, PERMANENT SECRETARY FOR FINANCE AND CHAIRMAN OF THE ACCOUNTING AND CORPORATE REGULATORY AUTHORITY, AT THE PUBLIC ACCOUNTANTS CONFERENCE 2010 ON 15 JULY 2010, 9.15AM, AT THE RAFFLES CITY CONVENTION CENTRE

Distinguished Guests,

Ladies and Gentlemen,

Good morning. I am delighted to join you today for ACRA's fifth annual Public Accountants Conference.

Accountancy Sector on Growth Path in Next 10 Years

2. The accountancy sector in Singapore has grown steadily over the past five years, witnessing an average growth rate of 5.7% between 2005 and 2009. In 2008, despite the slowdown in the economy, the sector achieved real growth of 3.8%. In 2009, this improved to 4.3%, outpacing the growth in the overall Singapore economy. This positive growth trend amidst challenging times demonstrates the strength and resilience of the accountancy sector.

3. The accountancy sector is a key component of Singapore's professional services industry. The various sectors comprising the industry generated a combined S\$3.5 billion in value-added services in 2008, of which around 30 per cent can be attributed to the accountancy sector. As an exportable service, the accountancy sector also contributed a sizeable 15 per cent of the professional services industry's exports. And as the economic centre of gravity shifts towards Asia in the coming years, there will be more opportunities for the accountancy sector to further accelerate its growth both in Singapore and beyond.

4. The accountancy sector's positive outlook is reinforced by the fact that the larger public accountancy firms here perform regional leadership roles. Many of these firms are making significant investments to strengthen their infrastructure and enhance their professional capabilities. Singapore also benefits from having a high concentration of regional thought-leaders and technical specialists who are able to provide a wide range of high value-adding professional accountancy services, both to service local companies and also the more than 7000 MNCs based in Singapore. In addition, international professional accountancy bodies have leveraged on Singapore's strategic location and sound infrastructure to use Singapore as a gateway to penetrate Asian markets. Their presence here in turn helps to attract international talent, widening the accountancy talent pool in the process.

5. To meet the evolving needs of the regional emerging markets, the range of high-value adding professional accountancy services here would have to be widened. Nevertheless, audit will remain as the cornerstone of the services provided by the public accountancy profession.

6. Today, I will speak on two aspects of the audit function. First, the importance of the external audit function in the corporate governance framework and the need for the audit report to be substantiated by underlying audit work of high quality. And second, the need for stakeholders to build a deep appreciation of the value of audit, which would in turn, help to strengthen audit quality.

The Importance of Quality Audit in Good Corporate Governance

7. A sound and robust corporate governance environment underpins Singapore's competitiveness and attractiveness as an international financial and business hub. The independent audit function, which acts as the critical external check on the reliability and credibility of a company's financial information, is a key pillar in the corporate governance framework. An effective and high quality external audit framework promotes

confidence in the integrity of financial information and assists investors in their capital allocation decisions.

8. The auditor oversight architecture that has been put in place in recent years has helped to build up market confidence in the rigour and credibility of audit regulatory systems. Notwithstanding this, against the backdrop of the recent financial crisis, questions have been raised as to the extent which the different players in the audit arena should be responsible for, or could have mitigated the impact of the financial crisis.

9. In the UK, there has been much focus on what the respective stakeholders, including regulators and professional accountancy bodies, could have done to flag out the warning signs of the crisis at an early stage. A recent report from the UK Future of Banking Commission raised fundamental questions about the level of professional skepticism of auditors in relation to the audit of banks and financial institutions in the wake of the financial crisis.

10. The European Union has also recently launched a Green Paper on corporate governance which proposes radical reforms to the role of audit for banks and financial institutions. In particular, the EU proposals called for an extension of an auditor's role, which would mean that auditors could eventually validate a greater range of financial information. In addition, the Green Paper also called for greater cooperation between auditors and audit regulators and explored the idea of establishing an international audit regulator to more effectively identify and address systemic risks at a global level.

11. All these international developments have far-reaching implications for the audit profession. I would say that the issue boils down to the underlying role of an auditor, and not just the scope of an audit. A more fundamental question is whether we should

move beyond what many call “defensive audits”, or audits which seek to protect or limit the auditor’s exposure to liability. I anticipate that the profession will need to take the lead and play a constructive role in shaping this debate to build up the appreciation of the value of audit.

Enhancing the Appreciation of the Value of Audit

12. ACRA has sought to promote the cause of high audit quality since its formation in 2004. ACRA’s initiatives include a combination of regulatory as well as non-regulatory outreach programmes to the users of audit services. Specifically, ACRA has identified the engagement and involvement of stakeholders as a central plank of ACRA’s continued pursuit of high audit quality.

13. To illustrate, ACRA commissioned an independent research by ACCA, which examines the value of audit from the perspective of chairpersons of Audit Committees (or “AC” for short), and how this value could be enhanced. This is a key initiative which ACRA hopes would help to enhance the market’s appreciation of the value of external audit. Let me share three interesting observations from the ACCA report.

14. First, the most significant benefit received from an external audit is the assurance which the AC chairpersons draw on to “sleep well at night”. All the AC chairpersons interviewed for this research report recognised the seriousness of the governance responsibilities they undertake. They equate a “good audit” with the assurance which they derive from financial statements which pass the test of the external audit.

15. Second, while AC chairpersons want auditors to “speak their mind”, they also felt that a confrontational approach towards management was not constructive.

16. Third, the external auditor's letter to the management is particularly important to the AC Chairpersons. In fact, the AC chairpersons prefer the auditor's letter to the management not to be too "watered down" as they wish to have a comprehensive report of operations on the ground. The AC chairpersons also prefer to have face-to-face discussions on the issues identified in the auditor's letter, sometimes without the presence of the management.

17. These are indeed interesting observations for the audit profession and stakeholders to take note of. While the audit profession remains primarily responsible for driving improvements to audit quality, key stakeholders such as directors, audit committees and investors must be encouraged and incentivised to embrace the right behavior in valuing audit quality. Collectively, stakeholders can and should set high expectations of auditors by getting them to reach for the highest standards of audit quality.

Pro-Tem Singapore Accountancy Council

18. Beyond developing the public accountancy sector, Singapore also needs to develop the other segments of the accountancy sector such as business valuation, risk management and the development of CFOs. To spearhead the development of the accountancy sector, the Ministry of Finance will establish a Pro-Tem Singapore Accountancy Council (SAC) as recommended by the Committee to Develop the Accountancy Sector, or CDAS for short.

19. Specifically, the Pro-Tem SAC will set up the governing framework and implementation roadmap for the following CDAS recommendations:

- (a) the Accountancy Sector Development Fund and the Accountancy Services Research Centre;
- (b) the Singapore-branded professional accountancy qualification and the necessary accreditation processes; and
- (c) the specialisation pathways in business valuation, internal audit and risk management, and the professional development of CFOs.

20. The Pro-Tem SAC will be chaired by Mr Bobby Chin, who as chairman of the CDAS is well placed to implement its recommendations. Besides Mr Chin, the Pro-Tem SAC will comprise other senior industry leaders from the public accountancy profession, the private and public sectors.

Conclusion

21. These are indeed exciting times for the accountancy profession, given the scale of opportunities and growth potential of the sector. The significance and value of the services provided by the accountancy profession is set to grow, both in terms of its diversity as well as its volume. I believe that the profession will continue to take the lead in maintaining high standards of professionalism and expertise in order to achieve the goal to make accountancy a key contributor to the Singapore economy.

22. With that, I wish all of you a fruitful conference ahead. Thank you.