

SPEECH BY MR HON SUI SEN, MINISTER FOR FINANCE, AT THE OPENING
OF THE THIRD CONFERENCE OF SINGAPORE ACCOUNTANTS ON 11 DEC 76
AT 9.30 AM AT THE REGIONAL ENGLISH LANGUAGE CENTRE

As the Minister administering the Accountants Act (Chapter 212), I welcome the opportunity this Third Conference of Singapore Accountants provides to speak of matters which have given us all concern over the last one or two years.

This Conference is timely - perhaps even overdue, since it is some eight years after your last conference. And the two main topics selected for discussion, Accounting for Inflation and Auditing Standards, are most relevant to accounting problems and practices today.

Inflation accounting has for some time exercised the minds of accountants and government authorities in countries which have suffered the ill effects of inflation. Modifications to historical cost accounting seemed necessary since with inflation such conventional accounting gave an inaccurate picture of company finances. The deliberations of expert committees in the United Kingdom and in the United States have therefore been awaited with eager interest. I am glad that the Society of Accountants will be studying this problem at this Conference, particularly since the UK Inflation Accounting Steering Group headed by Mr Douglas Morpeth have given flesh to the Sandilands Committee recommendations by detailed proposals in their "Exposure Draft 18." Judging from the variety of views on these proposals, the many problems of inflation accounting do not appear to have been resolved to general satisfaction. Doubtless, therefore, the Singapore Society of Accountants will wish also to do some fundamental thinking for themselves before rushing to adopt the English or other system.

An examination of the economic conditions in the United Kingdom and America and economic conditions in Singapore appears pertinent. In Singapore, apart from the short period in 1973 and 1974 when we had a high inflation rate, the consumer price index has been kept quite stable. On the other hand, in the United Kingdom, the rate of inflation has exceeded 10% per annum over the past few years. Furthermore, we have a low interest rate regime and capital is available for investment. This is in contrast to the situation in the United Kingdom where interest rates are high and capital is scarce. Moreover, Singapore companies have been earning reasonable profits and have been able to retain earnings for capital investment. Singapore must also assess for itself whether inflation accounting might not in itself induce an inflationary spiral if it adopts a replacement cost basis or a current cost basis of accounting.

I should like therefore to suggest to the Society that since inflation has latterly lost its urgency in Singapore, we can well afford to await the results of implementation of systems in the UK and the US, and adopt them only when they have been sufficiently well tried and proven.

I now turn to the other topic of accounting standards. From time to time, dissatisfied shareholders of companies or other persons suggest for my consideration as Minister under the Companies Act, that for the protection of the public, the affairs of a company should be investigated. The law requires the Minister to be satisfied that there is a prima facie case for such investigation before he appoints an inspector to investigate. In determining whether a prima facie case exists, the state of the company's finances would obviously be

one relevant factor. Often, however, this cannot be easily ascertained. It is to me astonishing that any public company listed on our Stock Exchange and presumably employing competent accountants and auditors, should find it difficult to produce approximate figures giving a fair assessment of the company's immediate financial situation. And yet even published annual balance sheets often provide very inadequate information.

Reporting after an investigation in one case, the Inspector stated "to me the inescapable conclusion in the light of the full facts, is that the Group accounts of for the years 1972, 1973 and 1974 were misleading in that they did not adequately disclose the results of the Group for those years."

Later in his Report, he had this to say "on this issue, therefore, I conclude that the group accounts for the years 1972, 1973 and 1974 do not in each case present a true and fair view of the results and state of affairs of the Group, and in particular that the directors' reports for those years fail to deal with 'a circumstances not otherwise dealt with in the report or accounts which would render any amount stated in the accounts misleading.' Accordingly, I am of the opinion that those directors of with full knowledge of the scheme failed to comply with the relevant provisions of Section 169 of the Companies Act in respect of the Group accounts for the years 1972, 1973 and 1974. The auditors failed to report these breaches as required by Section 174 of the Act."

He then went on to say "the auditors' failure to report the breaches of the provisions of Section 169 of the Act was, in my opinion, due to a mistaken view of their rights and duties as auditors."

I believe that the foregoing extracts from the Inspector's Report touch on the main point which accountants and auditors should take note of. The essential duty of auditors is to state whether the accounts give a true and fair view. It would appear that some auditors are unable to discern what is true and fair because:-

- a They have been influenced by the directors.
- b They have forgotten that they also owe an obligation to the shareholders in general.
- c They are too weak.
- d They are not competent or experienced enough.

The Society of Accountants would do well to consider what measures are possible to prevent its members succumbing to any of these weaknesses and accordingly, failing in their professional duties, and what disciplinary action as a controlling body it should take against those who do. The basis of legislation we have passed for certain selected professions and occupations is the assumption that the professional bodies are well constituted and capable of self regulation, and that such self regulation would be more satisfactory than Government regulations, not in the narrow interest of its members alone but also in the interest of the general public.

If this assumption is not to be incorrect, then the Society must maintain high standards of professionalism and rigorous discipline. It is recognised that in the present state of the profession, there could be difficulties. The nature of the training and the qualifications of accountants and auditors vary very considerably. In earlier days, the needs of a rapidly developing economy and of Singapore not only as a great trading centre but also as industrial and financial centres,

created a demand for accountants, auditors or even only book-keepers which could not be met except by a vast expansion of accountancy courses at Singapore University, Nanyang University, the Polytechnic and Ngee Ann Technical College and elsewhere. The Faculty of Accountancy and Business Administration at the University of Singapore, for example, expanded their enrolment between 1970 and 1975 at an average annual rate of about 15% and 25% respectively in the two schools. The Society could, however, perhaps bring more uniformity in professional standards to its varied membership by additional training and examinations, or by workshops, seminars or even conferences such as these.

In addition, though there is now no shortage in numbers of accountants, there is still an admitted shortage of really experienced accountants. There could be no objection, therefore, to the Society admitting additional individual expatriate accountants of experience or even of well known foreign accounting firms to Singapore. If the Accountants Act or Rules made under the Act make it impermissible to do so, they can always be amended. A rejection of highly experienced applicants should be regarded as contrary to the general objective of developing local talent through transfer of knowledge and of creating better job opportunities for our graduates. These requirements can be stated as conditions of approval of the applications.

The accountancy profession is one of the great beneficiaries of Singapore's high economic growth. Whether because of accelerated industrialisation or of increased finance, banking, Stock Exchange or trading opportunities, there has been a great and continuing need

for accounting services which has brought good rewards to the profession. Their fees for services have not even been affected by inflation for, like many other professions, it is in the fortunate position of being able to base its charges on time and costs. I am sure that members will feel that in keeping with the privileges they enjoy in the practice of their profession, they have a corresponding obligation and need to do more to ensure that their services are, and remain, with collective control and discipline, of the highest technical and ethical, in a word, professional standards. At any rate, I offer these thoughts for what they are worth for discussion at your Conference, which I have now great pleasure in declaring open.