

Raising the bar on Singapore's corporate governance

SGX should consider requiring boards to publish internal audit reports detailing lapses and the proposed actions to resolve them. BY ROBSON LEE

THE spate of corporate debacles in the last decade arising from governance lapses and financial mismanagement, particularly those involving foreign issuers, has engendered more shareholders' activism, media scrutiny and greater public expectation of the state of corporate governance in Singapore. This has led to a "gentrification" of the management of listed companies. Corporate governance today is no longer just a buzzword, but an established culture that has firmly taken root in the Singapore market.

Foreign corporations listed in Singapore are subject to Singapore laws on mismanagement and fraud. However, there remains practical difficulties in enforcement if the perpetrators are not within Singapore's jurisdiction.

ACCOUNTABILITY

Whenever a listed foreign issuer is paralysed by management failure the question raised is always whether anything can be done to make the errant foreign officers accountable. The short answer is no.

Unless the errant officers are prepared to be accountable for any misfeasance, no Singapore court order can "teleport" them to face the music if they are residing in a foreign country that has no extradition treaty with Singapore.

Independent directors invariably face the cardinal question whether they would be in the position to raise the defence of due diligence should the company experience corporate failure. Corporate failures often arise from lapses in internal controls and poor risk management measures.

Independent directors who are part of the audit committee are expected to exercise



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oversight responsibilities inter alia, in the areas of risk management and the institution of group internal controls to mitigate fraud.

The board as a whole must ensure the integrity of financial reporting, and the timeliness and veracity of material market disclosures. The standard of care expected of all directors of a listed company must of necessity be high as they owe fiduciary duties to the market.

Singapore retail investors should not buy on hope, hold in greed and sell in fear. An investor must diligently read all announcements and financial statements of the company, and make informed decisions on his securities trading. He should not rely on market rumours or hearsay. He should attend general meetings and pro-actively ask the board

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to address questions and concerns that he may have.

The corporate debacles in the United States in 2007/2008 show that having the most comprehensive market laws and regulations in the form of the Sarbanes Oxley Act will not prevent corporate failures. Investors must at all times vigilantly do their due diligence and be alert to corporate developments that have an impact on their investments.

In the securities markets, the caveat emptor principle must always be the guiding tenet of faith. Having said that, investors have a reasonable expectation that there should be continuous supervision by the audit committee and the regulator over the affairs of foreign issuers whose business operations and assets are entirely outside Singapore.



Currently, all listed issuers are required to announce only unaudited financial statements. There may be a need for all issuers to publish full-year audited group accounts at the end of their financial year which have been reviewed and certified by the group's external auditors. FILE PHOTO

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The SGX does not at present require issuers to publish internal audit reports which are submitted only to the board. To enhance transparency of group internal controls and public accountability, it is suggested that the SGX should consider making it mandatory for all boards to publish group internal audit reports setting out all lapses and deficiencies that occurred during the financial period for

reporting, and the proposed board actions to resolve the mistakes and omissions. The group internal audit reports should be prepared and certified by professional accounting firms and should be announced periodically, at least once every year.

There must be no let-up in the discipline and high standards to uphold corporate governance. The continuous maintenance and improvement of good corporate governance cannot be over-emphasised for Singapore to maintain its sterling reputation as a financial hub in Asia.

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