

Key players' roles in averting fraud

THE recent spate of corporate scandals involving outright fraud, poor disclosure and absence of corporate governance has prompted the Singapore Exchange to put directors and audit committees on notice.

Most of the scandals involved S-chips – China-based companies listed here. But they could very well happen at any company, local or foreign, big or small.

The latest victim was Raffles Education, which just two weeks ago painfully wrote off \$34.6 million on account of its now worthless 29.9 per cent stake in Oriental Century, which for years inflated sales and cash balances, while also diverting money elsewhere.

To be sure, this won't be the last.

As the financial crisis unfolds, more fraudsters will be smoked out, leaving more victims in their wake.

Owner-managers are often the main culprits.

But fraud, and the eventual collapse of the company, could have been prevented if other key players had been more diligent in the discharge of their duties.

In many recent cases, the most glaring shortcomings are displayed by independent directors (IDs).

Too often, IDs get off scot free simply because they are not executive officers of the company. The common practice is to quit at the slightest hint of trouble, citing their inability to discharge duties effectively.

This goes against the spirit of their implied fiduciary duties, where they are expected to guide the company through crisis, and hopefully, return it to profitability.

This also raises questions about the quality of IDs. Often, IDs come on board a month or two before the launch of the company's initial public offer (IPO).

Many tend to be cronies of the owner-manager, often members of some "old-boys network" or high-profile elites who are seen as boardroom trophies by the company.

Many have little management experience, and rely heavily on the owners who invite them to join the board. These individuals then serve as rubber stamps for the owner-manager, rather than act as true representatives of minority rights.

This must change.

IDs must be held more accountable. Perhaps one way of ensuring this is for minority shareholders to elect them, and have them vetted and approved by the regulator. Questions should also be raised if a particular individual sits on too many boards.

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By **VEN SREENIVASAN**

Then there are the auditors.

Auditors, more often than not, manage to shrug off responsibility when things go wrong by citing the fact that they rely on the company officials for information. But competent auditors should have enough experience and insight to know when representations made by management do not make sense.

Of course, one can push the responsibility for the auditors' diligence to the Accounting & Corporate Regulatory Authority (Acra). If so, should Acra also be tasked to identify auditors who are negligent in the discharge of their duties, and perhaps put them on an "Auditors' Watchlist" if the auditor was involved in more than two companies where fraud was detected?

Thirdly, the financial advisers (FI) must also take some responsibility, especially if fraud occurs within a year or two after listing.

After all, they vouched for, and vetted the company, convincing in-

vestors to part with their money. Like the auditor, the FI should – through his understanding of the industry and peers – be able to raise the red flag if the numbers do not add up.

All too often, especially for S-Chip IPOs, it is consultants who find the FI, and become the interface between the FI adviser and the manager-owner. This must change, and FIs who have vetted multiple cases of companies subsequently found fraudulent should also be "watch-listed".

Finally there is the regulator – SGX.

While the SGX's call to company boards is right and timely, it has to shoulder some blame when things go horribly wrong.

The SGX gives the final nod for a listing, and in doing so, one would expect it to have vetted the prospectus to ensure sufficient disclosure, accountability and transparency. The business model and the company's officials would also have been screened. There is an implicit understanding that the SGX's nod is a seal of approval for a "clean" company with a valid business.

So the SGX should shoulder some responsibility, just as Catalyst sponsors have a responsibility on the alternate board.

Fraud and scandals are often months, or years, in the making. One wonders if they could have been prevented if there had been better oversight and vigilance by these key players.

Singapore's listing requirements have moved towards a disclosure-based regime. Yet one cannot completely ignore the need for policing altogether, especially when relatively unsophisticated investors are ploughing millions of dollars into companies whose businesses are located in the far reaches of the world.

This issue goes to the core of Singapore's reputation and integrity as a key financial node.