SATYAM of S’pore is possible: Experts

No safeguards are foolproof if management is crooked

He added that an effective whistle-blowing policy that accords full protection to informants employees will foster a culture of corporate integrity within the organisation – thereby serving as extra deterrence to any employee who intends to defraud the company.

But auditors warn that frameworks work better in theory than in practice.

The head of a prominent audit firm here said although Singapore’s updated code of corporate governance includes a call for listed companies to set up a whistle-blowing policy, there is no way of controlling how it is issued, or ensuring that all employees see it.

“In real life, the rules are a lot of form and no substance,” he quipped.

Although an auditor can, under the Companies Act, report a matter to the Finance Minister if it believes an offence involving fraud or dishonesty has been committed at a listed company, it is not the primary job of the auditor to go sniffing around for fraudulent practices, said industry experts.

Associate Professor Foo See Liang of the School of Accountancy at Singapore Management University said: “The auditors’ duty is to express an opinion on the financial statements. An audit engagement is not the same as a fraud investigation engagement, where uncovering fraud is the focus.

Unless there are unusual circumstances to alert the auditor, well-conceived frauds by senior management are not easily detected.”

Satyam’s auditor, Pricewaterhouse-Coopers, has released a statement defending its role: “The audits were conducted by Pricewaterhouse in accordance with applicable auditing standards and were supported by appropriate audit evidence.”

Mr Bobby Chin, chairman of the Singapore Totalisator Board and previously KPMG Singapore’s managing partner, said: “No system of controls, frameworks and safeguards is 100 per cent foolproof to prevent such occurrences, especially where there is management fraud.”

The Singapore audit firm head added: “If you have a determined effort by crooked management to cook the books, there’s no way for anyone going from the outside in to immediately fish it out.”

Dr Jitendra V. Singh, dean and Shaw Foundation Chair of the Nanyang Business School, said this case “clearly reveals failures” on more than one level.

“First, there is the intent to commit fraud on the part of at least some members of management. Second, it seems crystal clear that the auditors were not doing their job,” he said.

“If they were not satisfied, they should not have signed off on the accounts for the last several years.”

Experts say the regulatory framework here includes robust corporate governance guidelines requiring independent directors and board members of companies to be on an external audit committee.

The committee’s functions include reviewing financial results and the adequacy of the internal controls, risk management policies and systems, and the organisation’s structure for fraud risk management.

Lawyer Robson Lee, partner at Shook Lin & Bok, said: “If these guidelines are consistently adhered to and effectively implemented...It would create significant obstacles for management to perpetrate...the concealment of material irregularities in the company’s operations.”