38

Elevating Financial Reporting

YEOH OON JIN

A recent survey by the Accounting and Corporate Regulatory Authority (ACRA) and the Association of Chartered Certified Accountants (ACCA) revealed that half of the companies thought the preparation of financial statements was the responsibility of their auditors rather than themselves. There might be many conclusions that could be drawn from this statistic but one is clear: Responsibility for the preparation of financial reports has been clouded over the years.

Under sections 201(1A), 201(3) and 201(3A) of the Companies Act, directors have the legal responsibility for the company's financial statements and ensuring that the financial statements tell the true story of the financial well-being of the company. While the preparation of the financial statements are performed by the management team and reviewed by the auditors, ultimately, the directors bear responsibility for its accuracy and completeness.

In fact, the Companies Act in sections 199(2A) and 199(1) goes further to require the directors to be responsible for maintaining a system of internal accounting controls and keep proper accounting and other records that will enable the preparation of true and fair profit and loss accounts and balance-sheets.

FINANCIAL REPORTING SURVEILLANCE

Quality financial information contributes significantly to a strong and vibrant capital market in Singapore and the national agenda of making Singapore a leading accounting hub.

In line with this, ACRA introduced the Financial Reporting Surveillance Programme (FRSP) in 2011 to heighten directors' awareness about their responsibilities and to ensure that their companies have good accounting systems and practices.

The Programme focused on reviewing companies with modified audit opinions. Reprimand letters are then sent out to directors when the companies have been found to miss the mark in compliance with Singapore's financial reporting standards.

Concurrently, the Institute of Singapore Chartered Accountants (ISCA) have reviewed the financial statements of Singapore companies and provided feedback to the auditors of these companies on shortfalls in compliance. Auditors who were found to have provided clean opinion on financial statements with significant shortfall were counselled or recommended for practice monitoring reviews as part and parcel of self-regulation within ISCA.

ENHANCED PROGRAMME

In January 2014, these processes have been tightened with the signing of a memorandum of understanding between ACRA and ISCA. This will see a public-private sector collaboration to strengthen the quality of financial reporting by companies.

ACRA will review selected financial statements under the FRSP for corporate financial years after 1 April 2014. A risk-based approach will be used to select the companies, both listed and unlisted, to be reviewed. All qualified accounts and a sample of unqualified accounts will be reviewed. Every Singapore-listed company will be reviewed at least once every few years.

The key focus of the review includes:

- Application of new standards – specifically SFRS 113 "Fair value" – to ensure that the level of disclosures are sufficient for stakeholders to understand the type and significance of adjustments made, in order to arrive at the fair value of the financial and non-financial assets and liabilities.
- Appropriateness and adequacy of disclosures in various areas; such as going concern where material uncertainty exists, significant judgement and estimates, financial risk and capital management, related parties, etc.
- Assessment of "impairment of assets" needs to be assessed critically and comprehensively. Assumptions should also be consistent with market and appropriately disclosed.

The feedback and sanction from the review by ACRA go directly to the directors of the companies as part of the inititatives under the FRSP. Many directors have been surprised by these letters from ACRA. Although the reviews have been conducted in previous years, 2014 is the first year that directors have been directly informed of the reviews and the results.

Feedback from directors who have received the letters is that they have found the process useful in helping them to discharge their oversight responsibility. By seeking explanations on the review points, they believed that management and the auditors will be more proactive in ensuring compliance with the accounting standards and enhancing financial reporting disclosures .

No doubt all stakeholders have a role to play in strengthening the financial reporting value chain. As the person entrusted with the legal responsibility for the company's financial statements, directors play a vital role, together with management, to assess and improve the current financial reporting process and culture so that the financial statements portray a complete and accurate picture of the company's financial health. ■