

Financial Reporting Surveillance Programme - Raising the Bar on Financial Reporting

Presented by:

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Agenda

1. About the FRSP
2. Key findings from FY2013 Financial Statements
3. Case studies
4. Areas of Review Focus for FY2015 Financial Statements

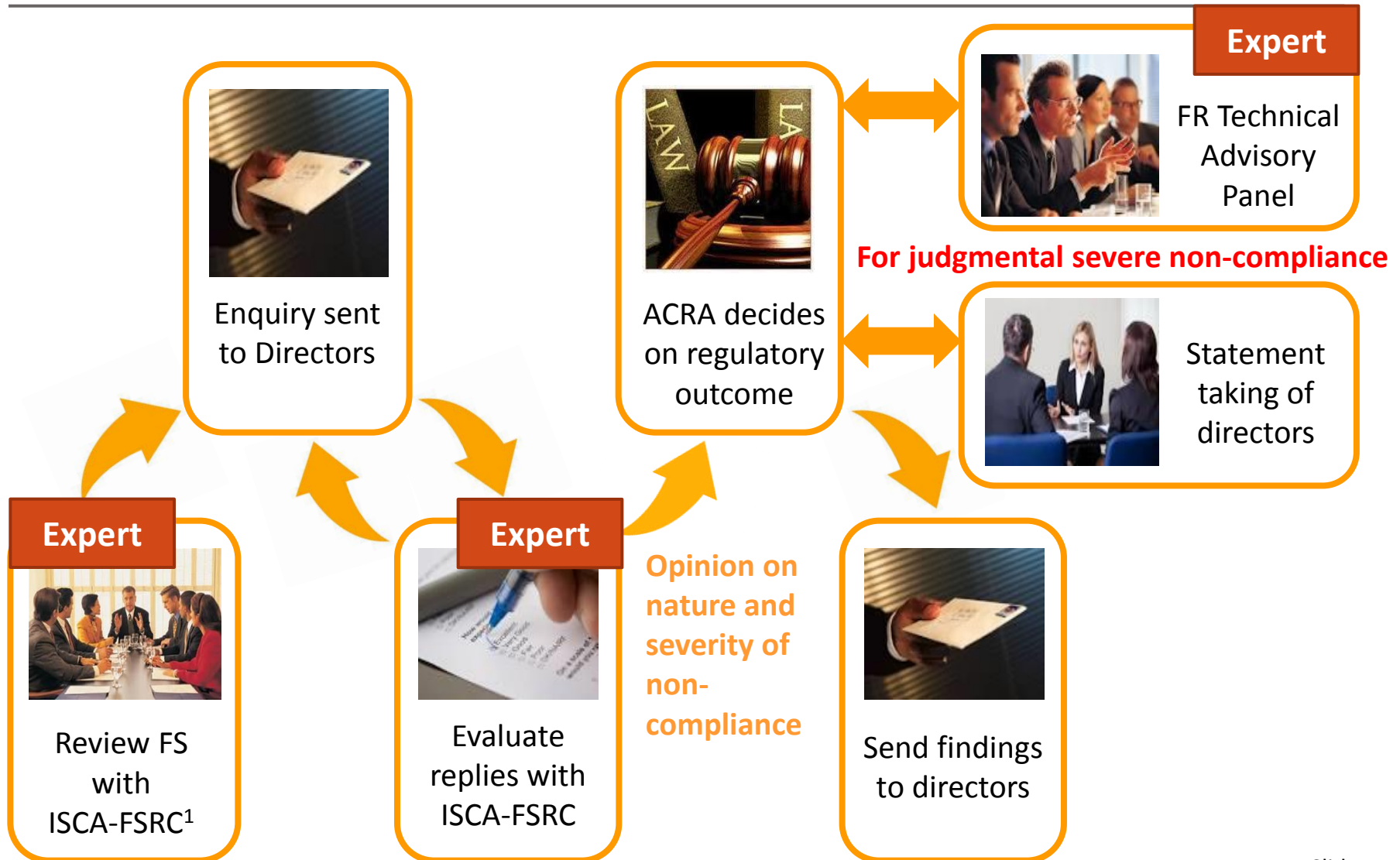
Financial Reporting Surveillance Programme

- 1 Review financial statements (FS) lodged with ACRA
- 2 Guide companies to comply with Accounting Standards
- 3 Enforce directors' duties under Companies Act

Sections 201(2) & (5): Directors are responsible to present and lay at AGM, FS which:

- are true and fair and
- compliant with the Accounting Standards in Singapore

Enquiry and Deliberation



¹ Financial Statements Review Committee of ISCA

Regulatory outcomes

Not a sanction

Regulatory sanction



Re-filing of restated, re-audited FS with ACRA

Director of listed co to announce at appointment
Listed co to consider if it is “material” info and if so, to announce

Positive observations on FY2013 FS



- Many ACs exhibited a strong sense of ownership over their company's financial reporting.



ADDRESS
each and every
question in the
sequence provided



EXPLAIN
the Group's
circumstances and
commercial substance
of transactions



PROVIDE
insights into the basis
for management's
and directors'
judgements



REFLECT
the willingness to
consider alternative
viewpoints



MAINTAIN
consistent fact pattern
and explanations

For findings communicated before FY2014 FS were issued:

ALL instances of non-compliance were corrected

Three-quarters of improvement points were addressed

Regulatory outcomes of listed FS



Excluding **2** ongoing:

4 instances of **severe** non-compliance

54 instances of **other** non-compliance

74 areas for **improvement**

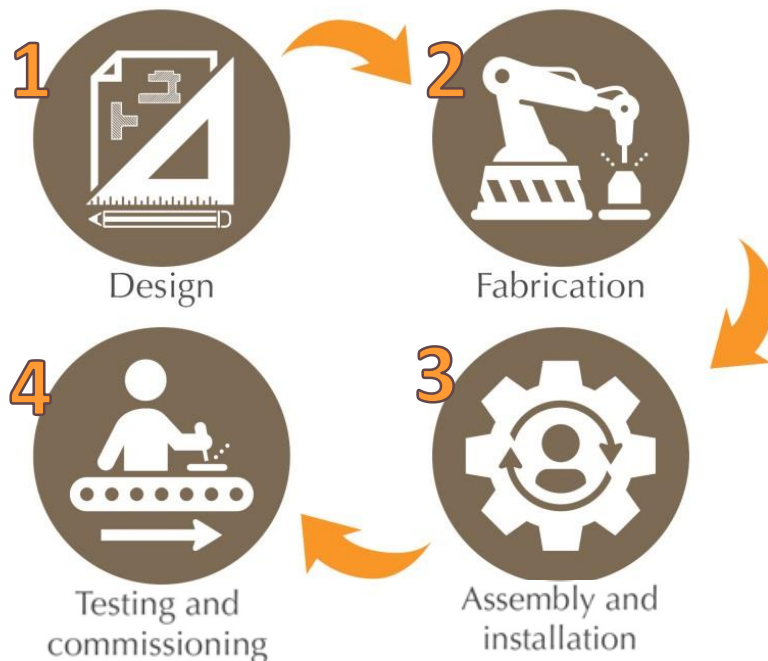


Case Study 1

– Construction contracts

Construction contracts (SFRS 11)

- Revenue and profit recognised by reference to stage of completion
- Stage of completion to reflect the extent of work performed



Fact Pattern

- Stage of completion measured by actual over budgeted steel usage
- Steel accounted for 48% of costs, used mainly in Phase 2 (fabrication)
- No construction work-in-progress
- Trade receivables were almost the entire Group's revenue for the year

Case Study 1

– Construction contracts (2)

Directors' response:

- Steel was a reliable proxy to measure work performed
- No work-in-progress as all unbilled amounts were presented as trade receivables
- Unbilled because the Group acceded to customers' requests to defer billing



Recognised the entire revenue and profits by Phase 2, when works were not fully completed



Inflated trade receivables



Artificially improved aging analysis of trade receivables



Directors should question when

- revenue and profits are substantially recognised before completion
- trade receivables are unusually high

Case Study 2

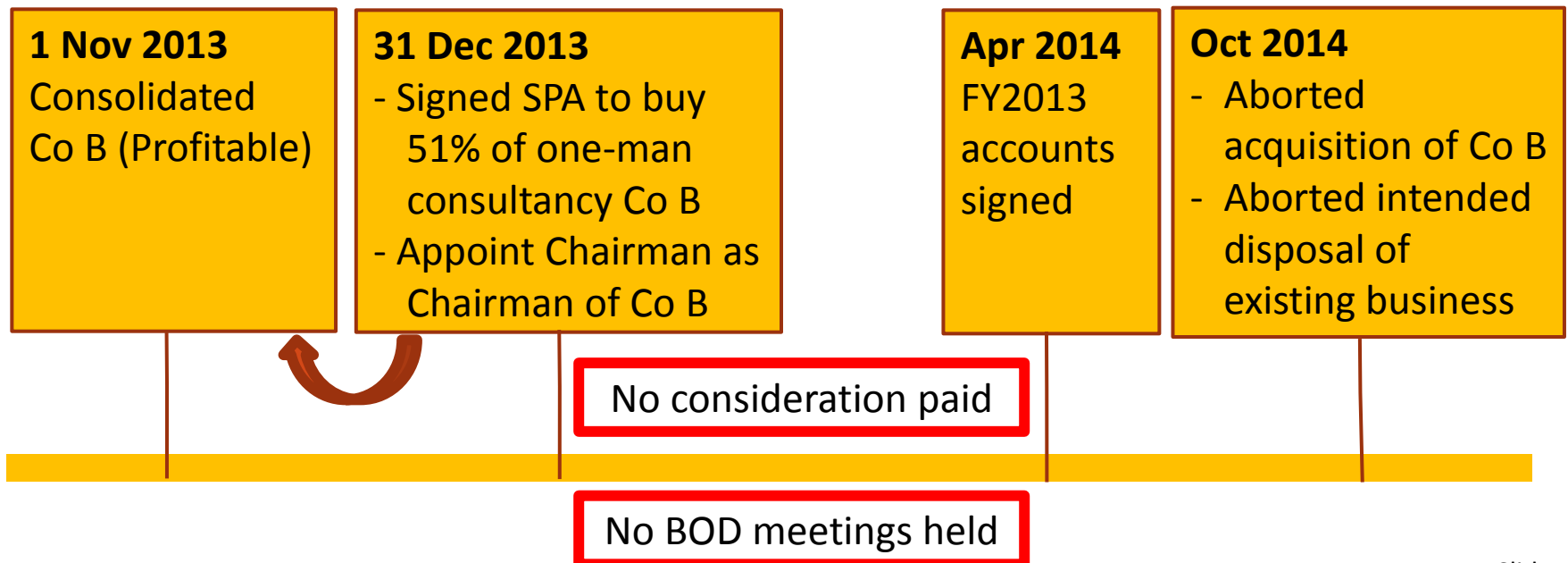
– Consolidation

Consolidation of subsidiary (SFRS 27)

- Consolidate a subsidiary only after control has been obtained
- Consider all pertinent facts and circumstances



Fact Pattern



Case Study 2

– Consolidation (2)

Directors' response:

- SPA gave rights to be involved in decision-making of Co B
- Appointed Chairman to be Chairman of Co B
- Consolidate two months before SPA due to rights to be involved
- Payments not made as not due

X Pre-completion undertakings
- Decision remains with seller

X No formal meetings of BOD

X Why would a third party seller give up its rights & benefits over profitable Co B, before receiving any payment?



Directors should:

- consider all facts and circumstances to establish control
- be alert to economic and business situations of the company

Root causes and Key takeaways

Insufficient scrutiny



Review financial statements carefully and with rigour

Aggressive judgements



Be alert to management's motivations and challenge their judgements

Over-reliance on weak accounting team



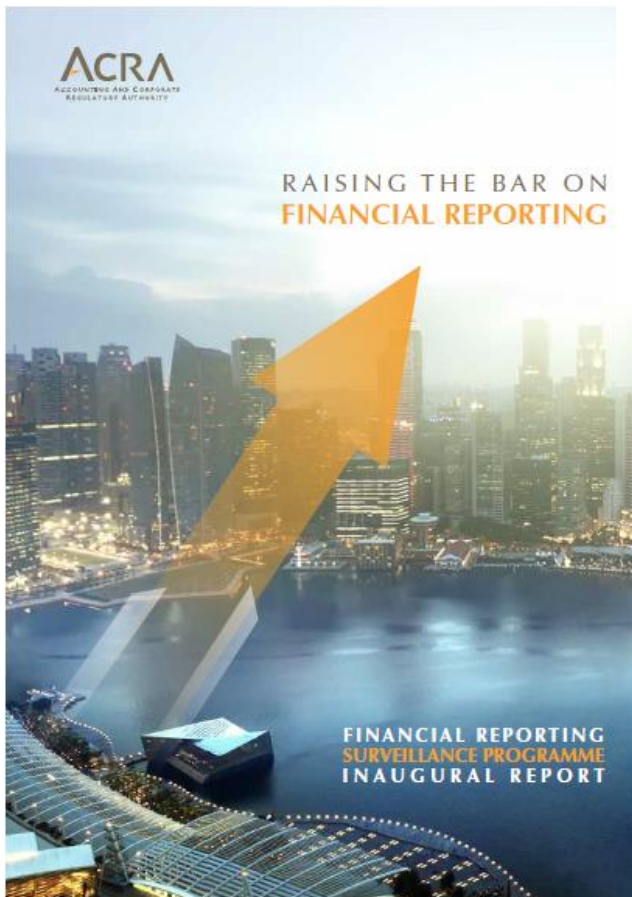
Appoint management with the right mind-set



Maintain competent and well-resourced finance team

Resources available for Directors

Annual findings report



Director Financial Reporting Essentials Course by SID and ISCA

- Subsidy: S\$300
- Course fee: S\$600



Sharing FRSP Areas of Review Focus in advance

Areas of FRSP Review Focus for FY2015 FS

ACRA's Financial Reporting Practice Guidance 2 of 2015



Reserved matters /
Call & put options



Business
acquisitions



Assets
impairment



Sale-and-leaseback /
Borrowing covenants



Statements of
cash flows



Currency
environment



Fair value
measurement



Earnings
per share

Thank You