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MEDIA RELEASE

Companies Urged to Raise Financial Reporting Quality

Singapore, 14 August 2013 – The quality of financial reporting in companies will be a key focus as the public accounting community meets today at the 8th Public Accountants Conference. Organised by the Accounting and Corporate Regulatory Authority (ACRA), the conference will see over 800 delegates discuss key challenges affecting the delivery of high quality financial reporting to investors and the rest of the business community. Held at the Raffles City Convention Centre, industry leaders will also discuss actions to be taken and how to get companies to take greater ownership of financial reporting.

2. This year's conversation extends beyond auditing to discuss how to improve the quality of financial reporting in companies, following feedback that poor quality financial reporting can be a major hindrance to high quality and value-adding external audit.¹ To examine the challenge of upholding the quality of financial reporting, a survey of preparers of financial statements in companies in Singapore was conducted by ACCA and ACRA for the first time. Key findings to be revealed at the conference suggest that companies need to firmly take ownership of financial reporting and put greater emphasis on developing the resources needed for effective financial reporting.

3. Another key focus at the conference is the raising of audit standards and making audit practices more sustainable. ACRA's Seventh Annual Practice Monitoring Programme (PMP) Public Report, which identifies areas for improvement for the public accounting firms, will also be issued at the conference.

Survey on Preparers of Financial Statements - Strengthening the Financial Reporting Value Chain in Singapore

4. The survey of preparers gauged preparers' mindsets towards financial reporting, its challenges, and their preferred solutions to these challenges. Close to

¹ As described in the report presented at the Public Accountants Conference in 2012: *Talent Attraction and Retention in Larger Accounting Firms* http://www2.accaglobal.com/documents/talent_attraction.pdf

400 accountants from large listed to small companies participated in the survey in May and June this year. Complementing the survey on financial preparers, a focus group of directors, preparers and auditors was held in June.

5. Key findings of the survey and focus group include:

- a. Companies and preparers need to firmly take ownership over their financial statements. About 50% of the survey respondents appeared to believe that the primary responsibility over financial preparation fell on auditors rather than them. Adding to this were views from the focus group that some company officers are not fully engaged in financial reporting because they see it as a compliance exercise, and that many rely on their auditors to drive the process.
- b. Frequent changes and the increased complexity of Financial Reporting Standards (FRS) were posing a major challenge to some financial preparers.
- c. Survey respondents and focus group participants identified the following as top measures to raise the quality of financial reporting and to make it more relevant: employing and retaining qualified accountants in the finance function; continuous training for the finance team as well as for the board directors and management; funding for new technological support and professional assistance; and support from top management who recognise that external financial reporting is value-adding and not merely a compliance exercise.

6. Commenting on the results, Mr Kenneth Yap, Chief Executive of ACRA said: “Quality financial information is the lifeblood of strong and vibrant markets. These survey findings underscore the pressing need to re-examine the responsibilities of each member of the financial reporting eco-system. Directors, audit committees, preparers and auditors must work with regulators to uphold investors’ trust and confidence in our market.”

7. Said Mr Chiew Chun Wee, Head of Policy, Asia Pacific, ACCA “The survey and focus group gave a clear message about the benefits of employing qualified accountants, and the need for companies to see the finance team not as a compliance team but as a communication team that bridges the gap between the company and its investors. For this bridge to have integrity and facilitate clear communication, companies need to give the finance team sufficient training, resources and authority to deal with today’s complex environment.

Better Audit Quality through Strong Quality Controls

8. Also to be unveiled at the conference is ACRA's Seventh Annual PMP Public Report², which reports on ACRA's audit inspections and other activities to promote audit quality.

9. This year's report highlights progress made by some audit firms in the public interest entity ("PIE") segment³ in establishing strong quality controls even in the midst of an increasingly challenging audit environment. The aim is to share leading practices that contribute to the execution of quality audits. These include:

- a) Clearer linkage of partner compensation to audit quality;
- b) Dedication of appropriate resources to support the firm's quality control functions; and
- c) Implementation of internal review programmes so that audit firms timely monitor whether their audit engagements comply with the relevant auditing standards and mitigate any potential audit risk areas.

10. Audit areas that ACRA would like the audit firms in the PIE segment to focus on are the audits of cash flow forecasts and inventories. Of concern is that these deficiencies are still occurring even after having been identified in previous years. Public accountants should carefully re-examine and address the root causes of these findings. (*For details on the report, please refer to Annex 2*).

11. The report also highlights how the workload of some firms in the non-PIE segment poses a major threat to audit quality. Excessive workloads can cause auditors to overlook issues or compromise on audit procedures. To break out of this mode, firms need to focus on delivering quality audits and charging fees commensurate with the value of their work.

12. Said Mr Kenneth Yap: "ACRA is heartened that audit firms have generally taken well to the Practice Monitoring Programme and have seized the opportunity to strengthen their quality controls. We urge public accountants to focus on recurring shortcomings observed in ACRA's inspections and take all remedial steps necessary to ensure continued public trust in Singapore's financial information system."

² ACRA issues the annual PMP Public Report to highlight areas the profession can improve on and raise audit quality. This seventh report covers the observations from ACRA's PMP inspections from 1 April 2012 to 31 March 2013.

³ The PMP inspections are calibrated to reflect the different level of risk to the public of audits conducted by firms in two broad segments:
i) Firms that perform audits of PIEs; and
ii) Firms that perform audits of non-PIEs.

Overcoming Challenges through Collaboration and Quality Assurance

13. Also at the conference, public accountants will discuss how the profession can help companies to improve their accounting, and how audit firms can build a more sustainable professional practice. New tools will also be released such as a toolkit “Getting Your Accounting Right” to help companies improve their accounting. The practical guide was developed by CPA Australia and the Singapore Management University’s School of Accountancy. The Financial Statements Review Committee of the Institute of Singapore Chartered Accountants will also release a compilation of common financial report findings, for financial preparers and auditors to refer to.

14. For more information on the Public Accountants Conference 2013, please visit www.acra-pac.com. Published reports are available on www.acra.gov.sg.

Attachments:

Annex 1: Joint ACRA-ACCA Survey on Preparers of Financial Statements

Annex 2: Key Findings from ACRA’s Annual PMP Public Report 2013

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About ACRA

The Accounting and Corporate Regulatory Authority (ACRA) is the national regulator of business entities and public accountants in Singapore. ACRA also plays the role of a facilitator for the development of business entities and the public accountancy profession.

The mission of ACRA is to provide a responsive and trusted regulatory environment for businesses and public accountants. As at 31 July 2013, 418,980 business entities and 989 public accountants practising in public accounting firms, accounting limited liability partnerships and accounting corporations are registered with ACRA.

For more information, please visit www.acra.gov.sg

Joint ACRA-ACCA Survey on Preparers of Financial Statements - Strengthening the Financial Reporting Value Chain in Singapore

In May 2013, commissioned by ACRA, ACCA launched an online survey to investigate the challenges faced by preparers of financial statements in Singapore. The online survey went 'live' for 3 weeks and concluded on 8 June 2013. A total of 533 responses to the survey were received, out of which 391 respondents were of the profile sought by ACRA and ACCA. The profile of the respondents included:

- A reasonable spread of replies between small, medium and large companies.
- Half were in the capital markets, i.e. listed companies, subsidiaries of listed companies, or seeking to list.
- A quarter of the respondents were CFO or equivalent, nearly half were financial controllers or equivalent, and the remaining were mostly in more junior positions.

To supplement the survey, on 27 June 2013, a focus group discussion comprising preparers, external auditors and board directors was organised to obtain feedback from a variety of stakeholders on some of the preliminary results of the survey. This report includes a summary of the key views and selected quotes from the focus group.

The key conclusions from the survey and focus group discussion are as follows:

Clarifying Responsibilities

1. **Own the business, own the accounting:** Companies and preparers need to firmly take ownership over their financial statements. It raises grave concerns that around 50% of the survey respondents agreed with descriptions of their responsibilities that deflected such responsibilities to the auditors. Views from the focus group suggest that some company management are not fully engaged in financial reporting because they see it as a compliance exercise and many rely on their auditors to drive the process.
2. **Re-balance the relationship:** Companies have become accustomed to hand-holding from their auditors, which the focus group saw as a legacy of past practice. The accountancy profession as a whole needs to work on re-balancing the current relationship. This will not happen overnight and will require a multi-pronged effort beginning with awareness and education, and support to overcome the challenges identified in the survey.

3. **Make it relevant:** Taking ownership will alleviate common complaints about today's financial reporting such as complexity, over-reporting and boilerplate statements. Companies should take ownership of their accounting judgements and ensure that financial reporting is reflective of the companies' business activities and therefore truly relevant to users.
4. **Bring in the professionals:** With a better understanding of their responsibilities for financial reporting, companies will see their accountants not as back room compliance officers but as professionals who can help the company make better accounting judgements and provide tailored financial information for management and investors. With this mindset, companies would be better motivated to employ qualified accountants.

Dealing with Change and Complexity

5. **Dealing with complexity:** Frequent changes and the complexity of the financial reporting standards were ranked as the top challenge for preparers. The standards are also perceived to make financial statements insufficiently relevant to businesses. The accounting community should help companies apply the standards in a way that is most relevant to their business. The profession should also collectively strive to exercise greater influence over the development of the standards.
6. **Prepare the preparers:** Preparers need to anticipate the upcoming changes to the standards and plan ahead to identify information needs early, which will ensure that the necessary process and systems changes can be in place on a timely basis. Being seen as trusted advisors to companies, external auditors can assist in alerting companies to developments in the standards, and share international and industrial best practices.
7. **A real alternative for SMEs?:** IFRS/FRS for Small Medium-sized Entities (IFRS/FRS for SMEs) was aimed to provide an alternative for SMEs. However according to the focus group, there has not been widespread adoption partly due to it being perceived as 'sub-standard' and the fact that IFRS/FRS for SMEs' reporting requirements are not sufficiently reduced to make it a practical and attractive alternative.

Developing Capacity and Capability

8. **Talent, talent, talent:** The top measures believed to have helped companies to improve their financial reporting processes and quality of reporting were: Employing qualified accountants in the finance function; retaining finance personnel for longer periods; and keeping their technical knowledge current by continuous trainings.

9. **It starts at the top:** Tone from the top is important. Boards and Chief Executive Officers need to be convinced that external financial reporting is value-adding and not merely a compliance exercise. This will help them recognise the importance of having qualified professionals within their finance functions, and the need to support continual training of the finance functions.
10. **Help wanted:** Small and medium-sized companies generally face cost-constraints and a more severe talent crunch. They welcome support in the form of government funding, for technology and access to professionals. More awareness could be raised about productivity and capability incentives such as the Productivity and Innovation Credit and Course Fees Relief schemes.
11. **Help available but not taken:** Small companies are not as keen on outsourcing the preparation of their financial statements to external accounting firms or having temporary help from secondees of such firms. This was because of concerns over the potential costs and reluctance to involve too many external parties.
12. **Education before regulation:** Regulatory and monitoring measures were viewed less enthusiastically than education and support measures. While accountability and remedial measures were seen as having a role in inculcating the desired mind-set, the respondents could foresee practical challenges.
13. **Qualified accountants are a must:** The most supported potential regulatory measure was to require companies to employ qualified accountants, possibly linked to the respondents' view that the most effective measure to improve financial reporting in their company had been employment of qualified accountants.

Value of Audit

14. **Audit wanted:** An overwhelming 85% of the survey respondents indicated that they still prefer to have the financial statements of their companies subject to an external audit even if they are exempted from a statutory audit.
15. **Auditors need to demonstrate more value:** 35% of the respondents agreed with the statement that their external auditors were not as helpful with their financial reporting because they needed to understand their business better. Hence, auditors need to ensure that audit teams have the necessary capacity and understanding of the business to bring value to the company beyond compliance.

Suggested actions for improving financial reporting in companies [See Report for full description]

Clarifying Responsibilities

1. Educate and create more awareness about the respective roles of an independent external auditor, the preparers, board directors and senior management in the financial reporting process, to inculcate the right perception and attitude.
2. Top management need to recognise the importance of having qualified professionals within their finance functions, and the need to support their continual training.

Dealing with Change and Complexity

3. To address the challenge of excessive reporting and boilerplate statements, companies should ensure that financial reporting is reflective of the companies' business activities and therefore truly relevant to users. Monitoring measures targeted at both preparers and external auditors should also have a focus on identifying and flagging up over-reporting so as to send out the right signal.
4. The profession should explain to companies about how the reporting principles and changes to them are expected to result in a better reflection of business performance and position. Updates on reporting standards for preparers and management/ board directors should emphasise how companies can apply the standards in a way that is most relevant to the company and its investors.
5. Preparers need to anticipate the upcoming changes to the standards and plan ahead to identify information needs early, which will ensure that the necessary process and systems changes can be in place on a timely basis. The independent external auditors and professional bodies should play an active role in alerting companies to developments in the standards, and share international and industrial best practices.
6. There is a need for the region to provide more feedback to the international standard setting body, especially if there are aspects of proposed IFRS that may be incompatible with the local environment or have questionable 'realism'. The local and regional accounting community should collectively strive to exercise greater influence over the future changes to the IFRS for SMEs with an aim to materially reduce the reporting burdens of small companies.

Developing Capacity and Capability

7. There should be more financial awareness workshops that provide customised and targeted trainings for board directors and senior management. Directors and senior management should also be committed to keep themselves abreast of financial reporting developments to the degree necessary as relying fully on the finance team's representation does not relieve them from their legal obligations.
8. The government and relevant authorities could also raise awareness of productivity and capability incentives available to both companies and individuals, including the Productivity and Innovation Credit and Course Fees Relief schemes.

Value of Audit

9. The audit profession needs to keep working to convince some business segments, especially the small, medium-sized companies, that an audit provides value beyond compliance. The survey respondents highlighted specific value-adding elements they most appreciate from an audit, including recommendations on internal controls improvement, other best-practices sharing and timely alerts on financial reporting developments.

Please visit www.acra.gov.sg and www.singapore.accaglobal.com for the full report.

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KEY FINDINGS FROM ACRA'S PMP PUBLIC REPORT 2013

1. The key findings arising from the PMP are reported under two broad segments of ACRA's inspection activities; inspection of audits of public interest entities⁴ ("PIEs") and non-PIEs. Besides findings on engagement inspections in both segments, information in the PIE segment includes sharing of good practices noted from ACRA's review of firms' quality control policies and procedures against the Singapore Standard on Quality Control 1⁵ ("SSQC 1") *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*.

Firm-level Reviews in the PIE Segment

2. Having completed two cycles of the PIE segment firm-level reviews since 2007, ACRA has seen commendable improvements made by firms in implementing and enhancing their systems of quality control over time. Notwithstanding this, each firm is progressing at a separate pace, with some showing greater improvement than others. Additionally, areas of strengths and weaknesses amongst each SSQC 1 element differ amongst firms. ACRA noted that better performing audit firms analyse the results of reviews to determine root causes and implement effective actions.
3. This year's report provides insights into the practical policies and procedures which have proven effective in shaping the right behaviours and driving the execution of quality audits amongst firms. Some notable ones include:
 - Clearer linkage of partner compensation schemes to audit quality;
 - Dedication of appropriate resources to support the firm's quality control functions; and
 - Implementation of review programmes which allow for more timely monitoring of audit quality.

Engagement Inspections in the PIE segment

4. In this year's report, ACRA focused on deficiencies arising from the two most prevalent areas of inspections over the last twelve months, namely:
 - *Audits of Cash Flow Forecasts*
In this complex and judgmental area, deficiencies often arise from the lack of challenge and assessment by public accountants on management's key assumptions made in cash flow projections such as growth rate forecasts, cost structures and discount rates. Many of these findings reflect the engagement

⁴ The current definition of PIEs include companies listed on the Singapore Exchange or are in the process of issuing debt or equity instruments for trading on the Singapore Exchange, entities in regulated financial industries (such as banks, insurance companies, funds, fund managers and securities/brokers/dealers), and other entities which raise funds from the public (such as charities, Institutions of a Public Character and religious organisations).

⁵ The SSQC 1 is based on the equivalent of the International Standard on Quality Control 1 issued by the International Auditing and Assurance Standards Board.

team's lack of understanding and appreciation of the requirements of the financial reporting and auditing standards.

- *Audits of Inventories*

Increased complexity of product offerings, sourcing and manufacturing demands have bearings on how inventories are accounted for and hence audited. Failure to adequately consider these implications has resulted in findings in the area of inventory valuation, for example, in respect of product bundling arrangements, and inventory existence, particularly for inventories held at third party locations.

Given the recurrent nature of these deficiencies, ACRA urges public accountants to place greater emphasis towards identifying their root causes and implementing appropriate and sustainable action plans to resolve these root causes.

Engagement Inspections in the Non-PIE Segment

5. Inspections on firms in the non-PIE segment are carried out with the assistance of the Institute of Singapore Chartered Accountants ("ISCA")⁶ with oversight by ACRA. As in previous years, our inspections continue to reveal recurring and common weaknesses in the areas of inventory, income statement items such as purchases and sales cut-off tests, construction work-in progress and trade receivables. Despite repeated reminders and guidance, similar lapses continue to recur year after year. ACRA urges public accountants to step up efforts to reverse this trend and improve in the areas noted above.
6. In this year's report, ACRA also discusses the gravity of firms operating in a high workload volume practice model and how this systemic threat affects audit quality. ACRA has observed the tendency for public accountants to fail the PMP in instances where public accountants are faced with significant client loads or have unreasonably high concentration of clients with the same financial year-end. Firms are urged to deliver quality audits to showcase the value it brings and charge fees which commensurate with the true value of their work.

⁶ ISCA was previously known as the Institute of Certified Public Accountants of Singapore (ICPAS).