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Headline: Audit study throws up S$34b of proposed fixes

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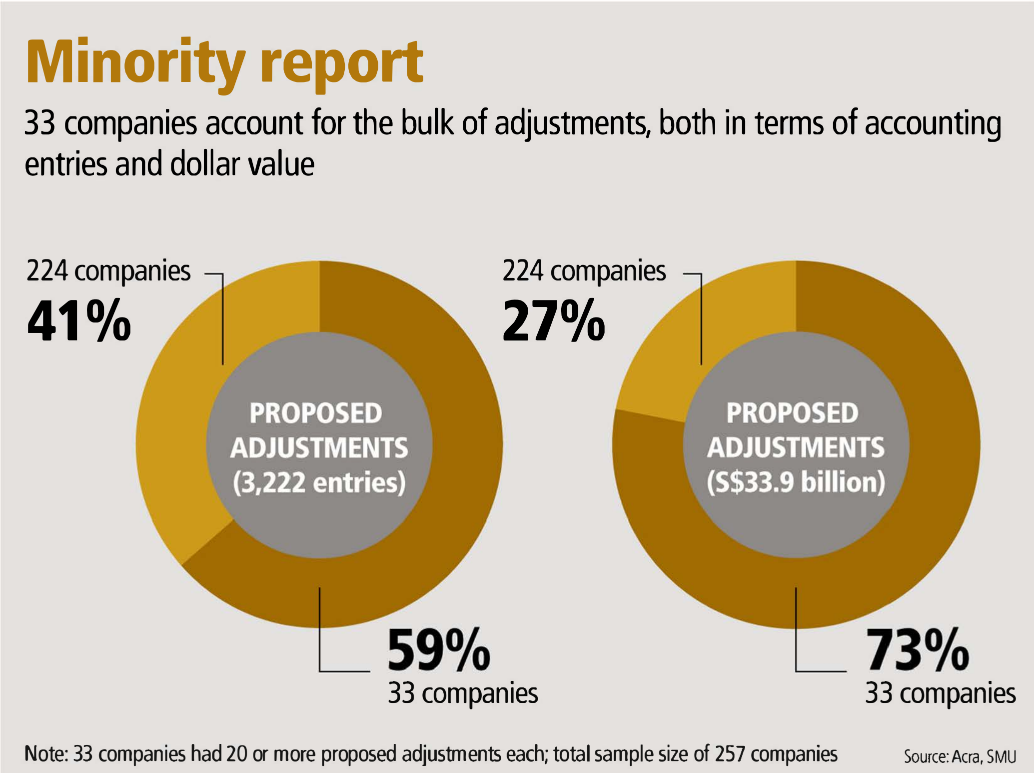
Almost two-thirds are accepted by firms; expenses are the most frequently adjusted

By **MICHELLE QUAH**
michquah@sph.com.sg
@MichelleQuahBT



Ms Teo: *Size itself is not an impediment to good quality financial reporting*

[SINGAPORE] For the first time, investors and other stakeholders now have a sense of just how accurate the financial statements of listed companies were before they were audited, and how much these accounts had to be adjusted by their auditors.

A new study has shown that S$33.9 billion worth of adjustments had to be proposed for a third of all listed companies here, for the year ended Dec 31, 2013.

The study, the first of its kind in the world, was published by the Accounting and Corporate Regulatory Authority (Acra) and the Singapore Management University on Wednesday, at Acra's annual Public Accountants Conference (PAC).

It covered 257 listed companies of different sizes and across industries; the companies had a total market capitalisation of S$288.3 billion, or 31 per cent of the Singapore Exchange's total market capitalisation.

The study, "Audit Adjustments Matter: Upholding Financial Reporting Quality", looked at all the adjustments to the FY13 financial statements proposed by auditors in their audits of these companies. The adjustments were proposed to correct factual, judgmental or projected mis-statements by the companies in their accounts.

The S$33.9 billion in proposed adjustments took the form of 3,222 sets of adjusting entries. An adjusting entry typically has at least two line adjustments – a debit line and a credit line. For those 3,222 sets of adjusting entries, there were 7,842 line adjustments, of which 3,931 were debit lines and 3,911 were credit lines.

The study also showed, however, that the bulk of the proposed adjustments were accepted by the companies in arriving at their audited financial statements. Of the 3,222 accounting entries, 65 per cent were accepted, representing S$30 billion of the total proposed adjustments. Expenses were the most frequently adjusted accounts, making up a quarter (26 per cent) of the 7,842 line adjustments.

About half (49 per cent) the companies had fewer than five proposed adjustments each; this group comprised an even spread of larger and smaller companies.

However, 13 per cent of the companies in the sample (33 companies), mainly those in growth stages, had more than 20 proposed adjustments each. These accounted for nearly three-quarters (73 per cent) of all proposed amounts, totalling S$24.7 billion.

The study said this could be due to accounting systems and capabilities not keeping pace with the companies' expansion, and that these companies should improve their internal control systems and processes.

Commenting on this, Senior Minister of State for Finance and Transport Josephine Teo, said in her speech at the PAC: "What we now know is that size itself is not an impediment to good quality financial reporting. However, when companies are at a growth stage, there is a greater risk that this capability does not get built in tandem with the needs of the growing enterprise. It is therefore timely to remind growing companies to take heed."

Manufacturing companies and those that express their financial statements in renminbi accounted for the bulk of adjustments in the various categories.

In terms of industry, companies from manufacturing (32 per cent of the sample population) had the most audit adjustments – 59 per cent or S$20.1 billion of total proposed adjustments. Services and commerce companies were next, accounting for 18 per cent and 11 per cent of all adjustments.

Financial statements expressed in renminbi made up the bulk (60 per cent) of the adjustments. It is believed that this stemmed from many Chinese companies adopting Generally Accepted Accounting Principles as their financial reporting standard, as opposed to the Singapore Financial Reporting Standards used here.

Commenting on the findings, David Gerald, the president and chief executive officer of the Securities Investors Association (Singapore), said: "This study provides assurance that auditors are doing their part in ensuring financial reporting quality remains high. We would like to see preparers (of financial statements) up their game." Acra's chief executive Kenneth Yap echoed the view, saying: "This ground-breaking study has shown there is much room for improvement in the preparation of financial statements prior to audits. Companies with multiple audit adjustments need to shape up. Investors and company directors can and should also demand higher quality accounting from their companies."

He added that Acra, on its part, will continue to step up its enforcement of accounting standards to level the playing field and ensure the reliability of financial statements.

☛ **Acra adopts more risk-based approach to audit inspection, Page 4**