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## ACRA and SMU study shows there is a need for public-listed companies to improve on how they prepare their unaudited financial statements, Senior Minister of State Josephine Teo says.

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BY WONG SIEW YING

SINGAPORE: Public-listed companies in Singapore have been urged to improve the preparation of unaudited financial statements, as findings from a study showed that some had made significant adjustments during their audits.

The study, commissioned by the Accounting and Corporate Regulatory Authority (ACRA) and undertaken by the Singapore Management University, covered 257 listed companies in Singapore with a total market capitalisation of S$288.3 billion as of Dec 31, 2013.

ACRA says the study - the first of its kind to use actual audit adjustments data - found that auditors proposed a total of 3,222 adjusting entries with a total gross value of S$33.9 billion.

Such adjustments are proposed by auditors during an audit to correct accounting omissions and errors, and are good indicators of the gap between accounts prepared by the company and how well they met accounting standards.

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The findings show that about half of the companies had five or fewer proposed adjustments each, constituting about 10 per cent of all adjustments. Thirty-three companies were found to have 20 or more proposed adjustments each, accounting for 70 per cent of the value of adjustments.

Speaking at an industry conference, Senior Minister of State for Finance and Transport Josephine Teo says most of the 33 companies share a common trait in that they are growth-stage companies, each with a market capitalisation of less than S$500 million.

"The higher rate of proposed adjustments was likely attributable to accounting systems and capabilities that had not kept pace with companies' expansion. When companies are at a growth stage, there is 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," said Ms Teo.

She added that the study underscores the need for audit committees to increase their scrutiny of how companies prepare their financial statements. "The audit committee can assess the company's financial reporting capabilities and capacities, and deliberate if the nature and frequency of audit adjustments suggest more serious underlying issues such as fraud," she said.

SMU Associate Professor of Accounting practice Mr Themin Suwardy says manufacturing is a sector that needed more work. "The manufacturing sector accounts for about half of the factual differences and 70 per cent of the misclassification differences, which is quite abnormal when you think about it, because you would think that manufacturing operations tend to be more regular and less complex transactions. It is a little bit unusual," he said.

With the study findings, ACRA said it will engage various stakeholders, including audit committees, directors and investors, to address the root causes of audit adjustments and to further improve the standard of financial reporting in Singapore.

The Securities Investors Association Singapore (SIAS) said that while it was comforting to know that the majority of listed firms did not have a large number of adjustments, it hopes that those that did will continue to improve their accounting processes to offer more assurance to investors.

Said David Gerald, President and CEO of SIAS: "The senior management is in charge of the accounting process, they must get it right. Until and unless there is disclosure of such adjustments, investors will be kept in the dark."