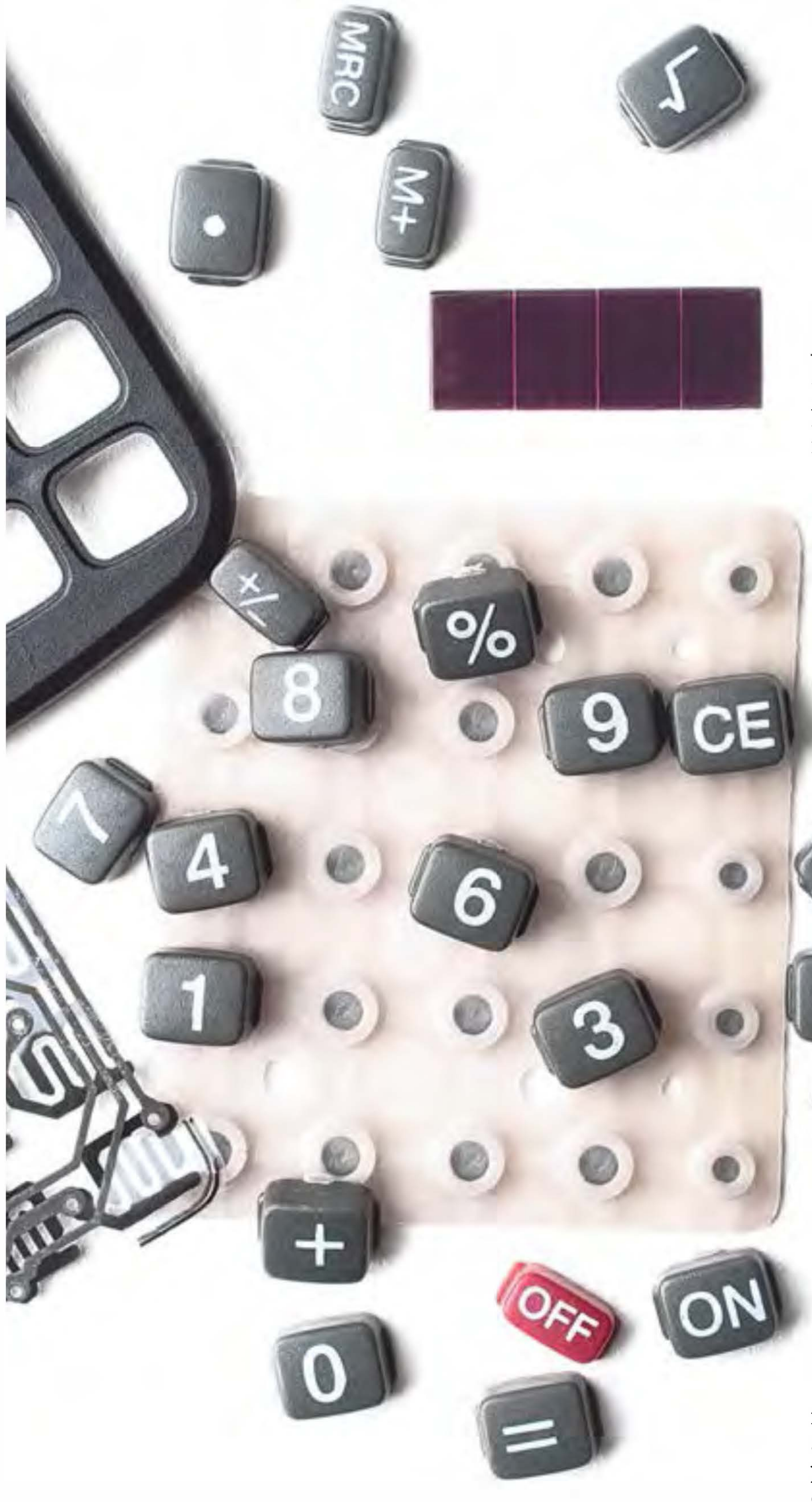
Publication: The Straits Times, p B11
Date: 28 August 2014
Headline: Firms falling short of accounting standards



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Firms falling short of accounting standards

Manufacturers rack up most audit errors, study commissioned by regulator shows

By MELISSA TAN

MANY listed companies need to look at improving their financial reporting, Senior Minister of State for Finance and Transport Josephine Teo said yesterday.

She noted that a study of 257 listed companies found that only about half of them had prepared their accounts well enough to ensure they needed just a few adjustments by auditors.

The total audit adjustments for those 257 firms came up to a whopping $34 billion, with most errors attributed to manufacturers, the study found.

Auditors usually propose adjustments during an audit to correct accounting errors made by the firm under audit. Audit adjustments therefore are a gauge of how well the accounts the firm prepared met accounting standards. The more adjustments required, the worse the originally prepared accounts.

A group of 33 companies presented accounts needing as many as 20 or more adjustments by auditors, Mrs Teo noted.

"Such adjustments should... not be prevalent if the accounts are prepared correctly in the first place," Mrs Teo told a public accountants' conference held at Raffles City Convention Centre.

Companies in a "growth stage" were the biggest culprits, she said, adding that these firms' accounting systems may not have kept pace with their 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."

Instead of the problematic firms being very small, these growth-stage firms mostly have a market capitalisation of $100 million to $500 million, according to the Accounting and Corporate Regulatory Authority (Acra), which commissioned the study.

Manufacturers had a disproportionately large share of the $34 billion worth of audit adjustments attributable to the 257 firms.

Even though the sector made up 32 per cent of the 257 firms, at 81 companies, it accounted for about $20.1 billion – or 59 per cent – of total audit adjustments.

Manufacturing dwarfed other sectors represented in the study, such as services, property and commerce.

Services industry firms, the runner-up, needed $5.9 billion worth of audit adjustments, or 17 per cent of the total. They made up 23 per cent of the 257 firms.

Most of the adjustments for manufacturers were due to wrongly classified accounting entries, according to the study, which was done by a team of Singapore Management University researchers.

"This is surprising as manufacturing companies are usually more operationally structured and organised than other industries," the researchers said in the report.

It is possible that these manufacturing companies do not have an adequately staffed finance team, they added.

But the research team, led by Associate Professor Themin Suwardy, said "investors should be comforted to learn that most proposed adjustments are reflected in the audited financial statements".

Still, Mrs Teo yesterday urged listed firms to "review the adequacy of your accounting systems and finance resources".

"Companies in the public markets have an especially important duty to investors to ensure that you are equipped to deal with the tight reporting timelines."

She said the study underscores the fact that audit committees need to scrutinise their firms' preparation of financial statements more closely.

"Delve deeper to find out the root causes for these adjustments. While auditors have done their jobs, we should not rely on them solely as gatekeepers."

Corporate lawyer Robson Lee told The Straits Times yesterday that accounting errors cannot be blamed solely on inadequate finance teams.

"The board is the last line of checks and verifications before the results go out to the market," said Mr Lee, who sits on six audit committees and was audit committee chair for Qian Hu for 11 years till 2011.

"The board has the responsibility to ensure that the people entrusted with the accounts are suitably qualified, and that the results announced are true and complete in all material respects," he said.

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> **CORPORATE RESPONSIBILITY**
> Companies in the public markets have an especially important duty to investors to ensure that you are equipped to deal with the tight reporting timelines.
> **– Senior Minister of State for Finance and Transport Josephine Teo (right)**
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