

RELIABLE STATEMENTS 'IMPORTANT FOR RETAIL INVESTORS'

Listed companies urged to improve financial reporting

Study finds S\$34b worth of audit adjustments across 257 firms

LEE YEN NEE
leeyennee@mediacorp.com.sg

SINGAPORE – Public-listed companies in Singapore are urged to improve their preparations of unaudited financial reports as an inaugural study found that some of them have made adjustments totalling S\$34 billion during the audit process in the last financial year.

This is important as retail investors rely heavily on these statements, available on the Singapore Exchange website every quarter, to make invest-



Users of financial statements want to be sure that the numbers on the financial statements are reliable. This study provides assurance that auditors are doing their part in ensuring financial reporting quality remains high.

Mr David Gerald
PRESIDENT AND CEO
OF THE SECURITIES
INVESTORS ASSOCIATION
SINGAPORE

ment decisions. Many of these quarterly financial reports are not audited.

“Unlike institutional investors and analysts, who are likely to have greater access to companies’ management and other information sources, retail investors rely mainly on companies’ public disclosure through their quarterly announcements and annual financial statements,” said Senior Minister of State (Finance and Transport) Josephine Teo in her opening address at the annual Public Accountants Conference yesterday.

Adjustments are proposed by auditors during an audit to correct accounting omissions and errors and are typically not known to shareholders and investors. They also give an indication of the gap between the unaudited statements prepared by the companies and what is required under accounting standards.

The study, commissioned by the Accounting and Corporate Regulatory Authority (ACRA) and undertaken by the Singapore Management University, found that in the 257 listed companies surveyed, auditors had proposed a total of 3,222 sets of adjustments with gross values adding up to S\$33.9 billion for the financial year ended Dec 31, 2013.

The study is possibly the first of its kind in the world to use actual audit adjustments data.

The 257 companies represent an aggregated market capitalisation of S\$288.3 billion, or 31 per cent of Singapore Exchange’s (SGX) total market capitalisation. And 13 per cent of them, or 33 companies studied, had more than 20 adjustments each that contributed to S\$24.7 billion, or 73 per cent, of the total adjustments.

Ms Teo noted that the 33 companies are those in the “growth stage”.

“As it turns out, most of the 33 companies share a common trait — they are “growth-stage” companies with 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 up pace with the companies’ expansion,” she said.

Mr David Gerald, president and chief executive of the Securities Investors Association Singapore, said the study has shown that the auditing process is effective in spotting possible mistakes in financial statements.

“We are pleased to see that auditors play a significant role in correcting financial statements. Users of financial statements want to be sure that the numbers on the financial statements are reliable. This study provides assurance that auditors are doing their part in ensuring financial reporting quality remains high. We would like to see preparers (from listed companies) up their game,” he said.

Mr Kenneth Yap, CEO of ACRA, said the 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.”