

Corporate Commercial

ACRA Highlights the Need to Strengthen Financial Reporting Competency and Consider Impact from Climate Reporting in its Fourth Financial Reporting Surveillance Programme Report

On 6 January 2023, the Accounting and Corporate Regulatory Authority ("**ACRA**") released its fourth report from its Financial Reporting Surveillance Programme ("**FRSP**"). ACRA reviews the financial statements ("**FS**") of Singapore-incorporated companies for compliance with accounting standards in Singapore and publishes its findings in the FRSP report. This latest FRSP report highlighted that knowledge gap, insufficient due diligence and lack of action taken on issues raised by auditors remain the root causes contributing to material non-compliances with accounting standards. The FRSP report also provides key accounting and auditing considerations for climate reporting.

Key Findings on Material Non-Compliances with Accounting Standards

In the latest FRSP report, ACRA reviewed 33 sets of FS of Singapore-incorporated companies (consisting of 27 listed companies and six non-listed companies) prepared between 1 April 2020 and 31 March 2022. ACRA found 23 material non-compliances with accounting standards in 12 FS in areas such as business valuations, impairment assessments, presentation in cash flow statement, consolidation, and equity accounting. The material non-compliances were due to the following factors:

- (a) Knowledge gap within the finance teams, Chief Financial Officers ("**CFOs**") and Audit Committees ("**ACs**"), resulting in incorrect application of accounting standards;
- (b) Insufficient due diligence by the finance teams, CFOs and ACs on transactions that were neither complex nor required judgement; and
- (c) Lack of action taken on issues raised by auditors, including (i) failing to act upon the areas qualified or disclaimed by the statutory auditors; and (ii) accepting modified audit reports in consecutive years, instead of taking the appropriate steps to rectify the issues and resolve non-compliances with the accounting standards.

Need to Strengthen Financial Reporting Competency

ACRA highlighted that it is important for the person preparing the FS to understand the substance of the transactions and the principles behind the accounting standards, to correctly apply the relevant accounting standards to the transactions. If there is any competency gap of the finance reporting team, the companies can arrange for training to equip and upskill the finance teams, including CFOs and ACs.



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For more complex matters, the board of directors of a company ("**Board**") should support them by providing access to experts and consultants for advice.

Statutory auditors can assist the ACs, CFOs and finance teams by highlighting accounting and auditing issues early. If a statutory auditor raises any concern, the ACs should guide the CFOs and finance teams to resolve its concerns, instead of issuing a modified audit report. The Board should be thorough when reviewing and approving the FS and should ensure that the FS provides a true and fair view of the financial position and performance of the company.

Climate Reporting – Key Accounting and Auditing Considerations

The FRSP report also sets out the key accounting and auditing considerations to be taken into account by the ACs in assessing the accounting implications of climate change, when reviewing the FS and engaging with the statutory auditor.

When preparing the Company's FS, the ACs should pay attention to accounting considerations such as impairment of non-financial assets, contingent liabilities and provision for onerous contracts and sustainability-linked loan.

The ACs should engage their statutory auditors on the auditing considerations arising from climate related-risks, such as:

- (a) risk assessment and response to assessed risk, considering the entity's business model, industry factors and regulatory factors;
- (b) audit evidence, especially for estimates that may be affected by climate-related risks; and
- (c) engagement of an auditor's specialist, such as a climate-change specialist, where necessary.

Click on the following links for more information (available on the ACRA website at www.acra.gov.sg):

- [ACRA Media Release titled "Raising Competency of Audit Committee and Finance Team Crucial to High Quality Financial Reporting"](#)
- [Financial Reporting Surveillance Programme Report](#)

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Client Update: Singapore

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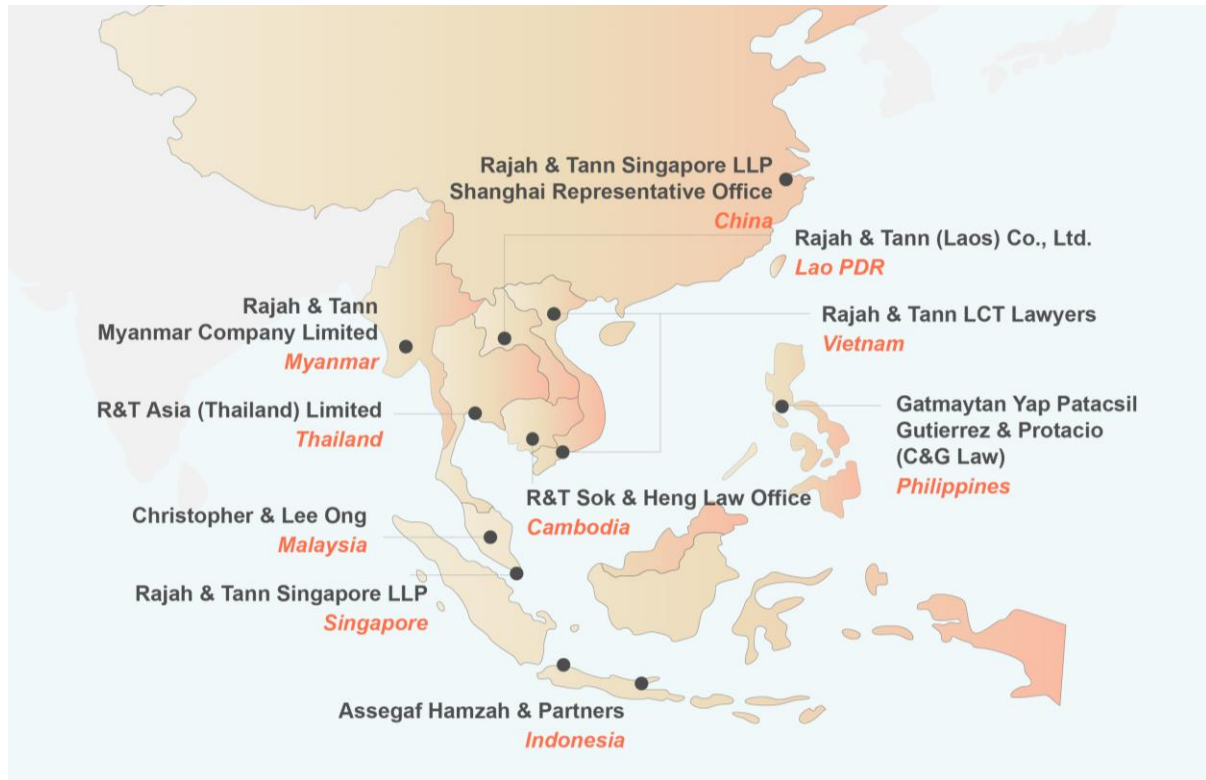
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