PRESS RELEASE

ROOM FOR IMPROVEMENT IN THE QUALITY OF FINANCIAL STATEMENTS PREPARED BY SINGAPORE LISTED COMPANIES FOR AUDITS

Findings from recent study on proposed audit adjustments

Singapore, 12 January 2022 – The latest study commissioned by the Accounting and Corporate Regulatory Authority (ACRA) reveals that there is room for improvement in the quality of financial statements prepared by some Singapore-listed companies for audits.

2 Conducted by Associate Professor Themin Suwardy from Singapore Management University and Dr Lim Chu Yeong from the Nanyang Technological University, the study analysed the proposed audit adjustments made by auditors to the financial statements of 412 Singapore-listed companies from 2018 to 2020. In addition, the study surveyed close to 280 audit committee chairs and heads of finance of these companies to gather their views on the effectiveness of their companies' finance functions.

3 Responsibility over the preparation of financial statements lies with the company. Under the Companies Act, company directors are responsible to table a set of audited financial statements to shareholders at the annual general meeting. Commonly known as a financial statements audit, the auditor is to carry out an objective examination of the company's financial statements and express an opinion as to whether the financial statements are prepared in all material aspects, in accordance with the relevant accounting standards. As part of the financial statements audit, audit adjustments may be proposed by the auditor to correct misstatements in the financial statements. Analysing the proposed audit adjustments thus provides insights into the quality of financial statements prepared by the company, allowing the company's directors, management and finance team to identify gaps and ways to improve their financial reporting process.

4 Some of the key findings of the study on 1,236 financial statements of 412 Singapore-listed companies over the three years are as follows:

a) **Auditors continue to play a key role in upholding financial reporting quality**
Between 2018 to 2020, auditors proposed 22,051 audit adjustments amounting to $78,670 million for the 412 listed companies under the study. About $67,079 million or 85% of these proposed adjustments were primarily to correct factual or misclassification errors in the financial statements. These proposed adjustments also amounted to an overall reduction in net income of $1,148 million in the financial statements over the three years. The extent and impact of the audit adjustments proposed to correct the financial statements underscores the key role that auditors

continue to play in upholding financial reporting quality. Nevertheless, the high occurrence of factual and misclassification errors highlights the need for companies to review the financial reporting process and controls with the objective of improving the quality of financial statements.

b) Some companies have issues finalising their accounts for audit - More than one-third of proposed audit adjustments were "late client adjustments"

Over one-third (36 per cent) of proposed audit adjustments were "late client adjustments"; i.e. they were identified by the companies themselves during the course of the audit. About 80 per cent of these late client adjustments relate to factual or misclassification adjustments. This suggests a weakness in the financial statements preparation process. Companies should consider investments in digital solutions and automation of financial processes to minimise errors and improve the efficiency of financial year-end reporting processes.

c) A minority of companies accounted for most of the proposed audit adjustments, some with persistently high level of adjustments each year

Over the three-year period, there were 165 sets of financial statements from 87 companies with more than $100 million worth of audit adjustments proposed by the auditors. Collectively, these financial statements accounted for $62,262 million (or close to 80%) of the proposed audit adjustments in this study. Out of these 165 financial statements, 28 companies had over $100 million of proposed adjustments every year during the three-year period, accounting for nearly 50% of the total proposed audit adjustments. The persistently high level of adjustments each year is indicative of an over-reliance by these companies on the auditor to produce a proper set of financial statements. Audit committees and management in these companies should place greater scrutiny over these audit adjustments and take prompt actions to address their root causes.

5 On the findings of the study, ACRA's Chief Executive, Mr Ong Khiaw Hong commented: "The study shows that there is room to further strengthen the finance functions of companies in Singapore to improve the preparation of financial statements. ACRA will work with professional bodies and other stakeholders in the financial reporting eco-system to help companies raise their accounting capabilities and provide guidance on areas they should pay attention to. We will also continue to focus our monitoring and enforcement efforts on companies with higher risks of financial misstatements".

6 Associate Professor Suwardy and Dr Lim said: "This study provides analysis of audit adjustments from multiple dimensions. It highlights the efforts involved in upholding financial reporting integrity. We are pleased to have contributed to this study that provides beneficial insights to all financial reporting stakeholders."

7 The report is available for download via ACRA's website.

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About ACRA

The Accounting and Corporate Regulatory Authority (ACRA) is the regulator of business registration, financial reporting, public accountants and corporate service providers; it also facilitates enterprise. We provide a trusted and vibrant environment for businesses to thrive and flourish, and contribute towards making Singapore the best place for business.

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