THE BUSINESS TIMES BTINVEST

Published on Monday, 9 February 2015

Be Aware of Financial Surveillance
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Over the last few months, many directors have received letters from the Accounting and Corporate Reporting Authority (ACRA) enquiring about their companies' financial accounts. These letters are part of ACRA's Financial Reporting Surveillance Programme (FRSP).

Around since 2011, the FRSP has been enhanced in the last year and is now directly engaging directors on issues relating to their accounts. It was therefore timely that ACRA shared its findings and observations from the enhanced programme at the ACRA-SGX-SID Audit Committee Seminar last month.

What is the FRSP?

Under the FRSP, ACRA selects, on an annual basis, listed and unlisted companies whose financial statements are assessed to be of higher risk of containing misstatements or omissions of disclosures.

Specifically, ACRA reviews the financial statements for compliance with the Singapore Financial Reporting Standards (SFRS). It does so with assistance from a panel of about 30 experienced accounting practitioners under a collaborative arrangement between ACRA and the Institute of Singapore Chartered Accountants (ISCA). Where the ACRA-ISCA team finds, or suspects, potential non-compliance with SFRS, enquiry letters are sent to the directors.

A company is required to provide a comprehensive response to each query within three weeks of receipt of the enquiry letter. The responses are evaluated by the ACRA-ISCA team. A second enquiry letter is issued if the initial responses are found to be insufficient in reaching a satisfactory conclusion.

Outcomes of reviews

Where the outcome of a review is satisfactory, ACRA will close the case.
For incidents of non-compliance that are not considered "serious", ACRA will issue an advisory letter to the company and its directors to urge them to improve on their level of corporate reporting in the future.

When the incidents of non-compliances are considered serious, ACRA may impose regulatory sanctions on the directors.

The first and mildest form of regulatory sanction is a warning letter. For what ACRA would consider "serious" incidents of non-compliance, ACRA may offer to compound the offence by imposing a fine on the directors. For very serious cases, ACRA has the power to prosecute both the directors and the company which could lead to fines and/or jail sentences.

Under the SGX Listing Rules, in all cases of regulatory action (including the issuance of warning letters), a director must declare, at his next appointment as a director of a listed company, that he has received a warning letter from a regulatory authority (in this case, ACRA). In addition, a company must consider if the regulatory sanction is material information that is likely to affect the share price of the company under the SGX Listing Rules. If so, it must immediately make a public announcement of the sanction.

What directors should do

Under the Singapore Companies Act, directors have the responsibility to present financial statements that are "true and fair", and to comply with the SFRS. Ignorance of the requirements of the SFRS and total reliance on management and/or the external auditors is not likely to be accepted as a valid defence.

Directors therefore need to read and understand the financial statements, and make appropriate enquiries of management before they approve the statements for issuance to shareholders. These tasks cannot be delegated.

Upon receipt of ACRA's enquiry letters, the audit committee should meet with the finance team and external auditors to understand the issues. Directors should also be involved in reviewing the responses and ensure that complete responses are provided, so that the review can be completed without undue delay.

As of now, whilst many of the enquiry letters issued have been "closed", a significant number of them are pending. "Closed" means that the financial statements are found to be in compliance or contain non-compliances to SFRS that are not material to the financial statements. For pending cases, second enquiry letters would be issued to address unclear or incomplete responses, or that material non-compliances have been identified before.

Examples of inadequate answers include incomplete or unclear responses; SFRS paragraphs are quoted but their application to the transactions in question is not elaborated upon; and omissions or misstatements are considered as immaterial by the company, but there is no articulation of the qualitative and quantitative considerations in determining materiality.

Although responding to ACRA's enquiry letters will take time, directors should treat the exercise as an opportunity to review and improve their companies' financial reporting functions. They should then make the necessary changes and adjustments in their

companies in a way that is holistic, and involve both the finance and audit teams. The board's goal, after all, is to ensure there is an internal ecosystem of experienced management, skilled resources in IT and finance, and competent auditors to carry out the company's work.

The writer is the second vice-chairman of the Singapore Institute of Directors. This article first appeared in BTInvest,
http://www.btinvest.com.sg/specials/boardroom/be-aware-of-financial-surveillance/