Strengthening the Financial Reporting Value Chain in Singapore

Letting the preparers have their say!

ACKNOWLEDGEMENTS

ACCA and *ACRA* would like to extend their appreciation to the accounting practices that participated for their cooperation, and to the participants for taking time to provide their views.

CONTACT

For any queries regarding this report, please contact:

ACCA
Chiew Chun Wee
Head of Policy, Asia Pacific
Contact number: +65 6637 8185
Email address: chunwee.chiew@accaglobal.com

Accounting and Corporate Regulatory Authority (ACRA)
David Turner
Head, Strategy and External Relations Division
Contact number: +65 6325 0747
Email address: David_TURNER@acra.gov.sg

CONTENTS

Background and Objectives 4

Approach and Acknowledgement 7

Profile of Respondents 9

Key Conclusions 10

Detailed Findings 12

Perception of responsibilities of auditors 12

The Challenges 17

1. Financial reporting standards and talent issues 18
   i. Quality of reporting standards 18
   ii. Plan ahead and be prepared 20
   iii. Over-reporting 21
   iv. IFRS/FRS for SMEs 22
   v. Talent issues 23
2. Audit-related ‘challenges’ 24

Solutions? 26

1. Past Experience 27
2. Potential fixes 30
   i. Training 31
   ii. SMEs 33
   iii. Accountability and capability measures 34

Value of an independent external audit 39

Conclusion and Recommendations 42

ABOUT ACRA

The Accounting and Corporate Regulatory Authority (ACRA) is the national regulator of business entitites and public accountants in Singapore. ACRA also plays the role of a facilitator for the development of business entities and the public accountancy profession.

The mission of ACRA is to provide a responsive and trusted regulatory environment for businesses and public accountants. ACRA's role is to achieve synergies between the monitoring of corporate compliance with disclosure requirements and regulation of public accountants performing statutory audit.

ABOUT ACCA

ACCA(the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

ACCA works to strengthen a global profession based on the application of consistent standards, which we believe best supports international business and the desire of talented people to have successful, international careers. We champion the needs of small and medium sized business (SMEs) and emerging economies, and promote the value of sustainable business.

To achieve this we work with global bodies such as the International Federation of Accountants (IFAC) and with 77 global partnerships. Above all, we seek to bring long-term value to economies in which we develop and support professional accountants.

We support our 162,0000 members and 426,000 students in 173 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers.

We work through a network of 89 offices and centres and 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

ACCA works in the public interest, assuring that its members are appropriately regulated for the work they carry out and, promoting principles-based approaches to regulation. We actively seek to enhance the public value of accounting in society through international research and we take a progressive stance on global issues to ensure accountancy as a profession continues to grow in reputation and influence.

BACKGROUND AND OBJECTIVES

In 2012, the Accounting and Corporate Regulatory Authority (ACRA) and ACCA (the Association of Chartered Certified Public Accountants) jointly conducted a talent survey for the larger audit firms in Singapore. The survey crystallised some of the key attraction factors offered by a career in audit as well as the major push factors, as articulated by the audit staff themselves. One of the insights gathered from the survey was how significantly the quality (or lack thereof) of financial reports produced by preparers affects the focus of the audit process and the value that an audit offers. Specifically, when preparers are not able to produce financial reports and supporting audit schedules that are timely and up to mark, auditors end up investing a lot more time working with the preparers to get the fundamentals right and correspondingly much lesser time engaging in value-adding work. This situation dulls the value of audit as perceived by board directors and management and causes immense frustration in auditors, partly contributing to the high turnover in the audit industry.

High quality financial information requires participation by all players in the financial reporting value chain. The challenge highlighted by the talent survey triggers various questions, including: What challenges do companies face in producing quality financial statements in an efficient manner? Where can preparers turn to for support? How can the public accounting profession and individual professionals help companies overcome these challenges so as to strengthen the value chain?

Taking the first step to seek the answers to these questions, ACRA and ACCA undertook a joint-survey, extracting the experience and seeking the views of preparers of financial statements in Singapore. The survey covered preparers from a cross section of Singapore businesses, from the smallest businesses that are exempted from an audit to the largest multinationals listed on the Singapore Exchange.

The study sought to provide insights into the attitudes and perspectives of preparers around their responsibilities for financial reporting vis-à-vis the responsibilities that they perceive the independent external auditors assume; the key challenges they face in producing financial statements; and importantly, what the solutions to those challenges may be.

To further reflect on and enrich the results from the survey, ACRA hosted a focus group discussion comprising preparers, external auditors and board directors. The focus group, chaired by ACCA, provided a platform for different stakeholders to debate the key enablers and distractors to quality financial reporting in Singapore and brought the challenges and other issues to life with various anecdotal accounts shared generously by the participants.

The main challenges and some of the associated solutions flagged up in the study have been crystallised in this report. The report provides all participants in the financial reporting value chain, including regulators, accounting bodies and public accountants, with better information to affirm or redirect their efforts to help strengthen the value chain and improve the overall quality of financial reporting in Singapore.

ACRA and ACCA would like to extend their great appreciation to all participants for taking time out of their busy schedules to share their views, and the supporting organisations for helping to disseminate the survey link. ACRA and ACCA would also like to thank the individuals who participated in the focus group discussion for their invaluable contribution.

APPROACH AND ACKNOWLEDGEMENT

- In May 2013, ACCA launched an online survey to investigate the challenges faced by preparers of financial statements in Singapore. The online survey went 'live' for 3 weeks and concluded on 8 June 2013.

- The following organisations were invited to disseminate the survey link to their contacts: the audit firms to their client-base, membership bodies to their members and so on.

    - BDO LLP, Crowe Horwath First Trust LLP; Deloitte & Touche LLP; EH Luar & Co/Alliance Practice LLP; Foo Kon Tan Grant Thornton LLP; Helmi Talib & Co; LTC LLP; MGI Menon; Moore Stephens; Nexia TS Pubic Accounting Corporation; Ng, Lee Associates DFK; Paul Go & Co; Philip Liew & Co; PricewaterhouseCoopers LLP; RSM Chio Lim LLP; Verity Partners

    - The Association of Small-Medium Entities of Singapore

    - The Singapore CFO Institute of the Singapore Accountancy Commision

- A total of 533 responses to the survey were received, out of which 391 respondents were of the profile sought by ACRA and ACCA.

- On 27 June 2013, a focus group discussion was organised to obtain feedback from a variety of stakeholders on some of the preliminary results of the survey. This report includes a summary of the key views and selected quotes from the focus group. ACRA and ACCA extend their greatest appreciation to the following individuals who generously shared their perspectives as part of the focus group:

    - From corporates: Daniel Johan (Citibank Singapore Limited); Lau Kok Keong (CFO, Beaute Spring Pte Ltd); Lim Seng Choon (Arcomet Asia Pte Ltd); Michelle Kuah (Rotating Offshore Solutions Pte Ltd); Susanna Cher (City Spring Infrastructure Management Pte Ltd)

    - External audit: Derek How (RSM Chio Lim LLP); Kok Moi Lre (PricewaterhouseCoopers LLP); Lee Boon Teck (Deloitte & Touche LLP)

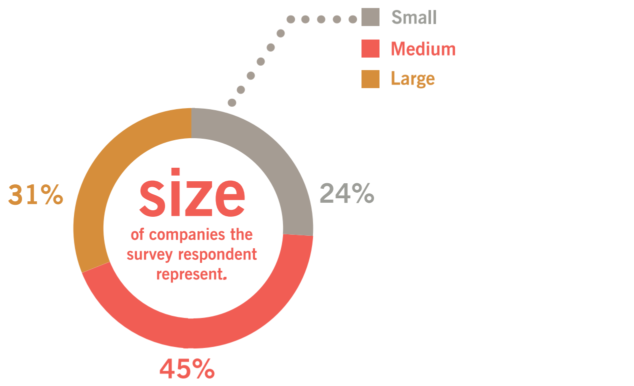
    - Board directors: Adrian Chan; Basil Chan; Daniel Ee

PROFILE OF RESPONDENTS

This report presents the survey respondents' views as one group. Additionally, it highlights significant differences in views between the different groups such as small, medium and large companies.

The profile of respondents is illustrated below:

- There was a reasonable spread of replies between small, medium and large companies.
- Half were not in the capital markets, i.e. not listed companies, subsidiaries of listed companies, or seeking to list.
- A quarter were Chief Financial Officer (CFO) or equivalent, nearly half were Financial Controllers (FC) or equivalent and the remaining third were mixed, mainly accountants in more junior positions.

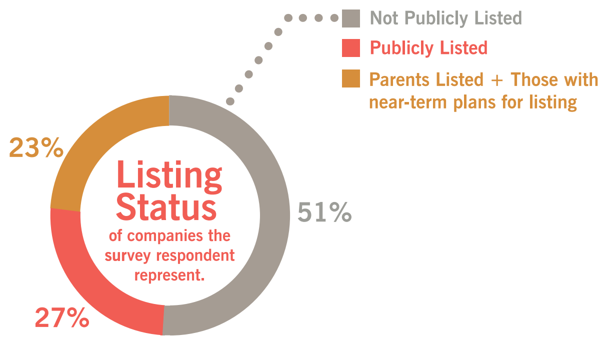


* By size of companies the survey respondents represent

- Small: Not publicly listed and meet at least 2 out of 3 of the following criteria:
  1. Revenue does not exceed S$10 million;
  2. Value of gross asset does not exceed S$10 million;
  3. Not more than 50 employees.

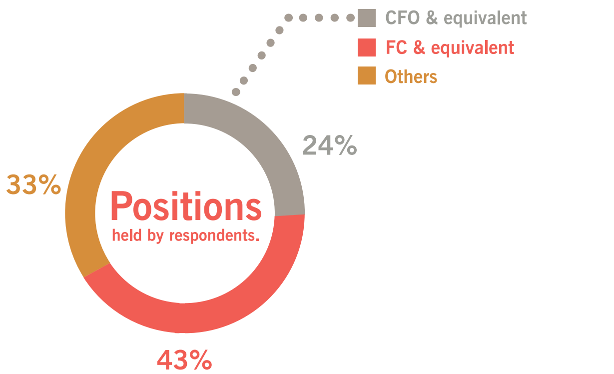
- Large: Meet at least 2 out of 3 of the following criteria:
  1. Revenue S$100 million and above;
  2. Gross asset S$100 million and above;
  3. 500 employees and above

- Medium: Does not meet the definition of ‘Small’ or ‘Large’



* By listing status

- Publicly listed include those listed on the Singapore Stock Exchange and those whose stocks were traded on overseas stock exchanges

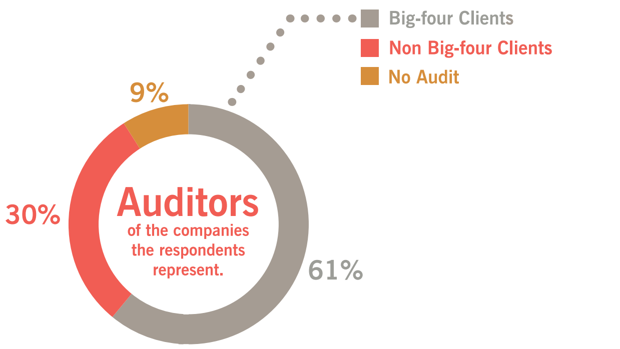


* By position held by respondents

- CFO and equivalent: Chief Financial Officer (CFO)/Finance Director or equivalent; and Chief Executive Officer (CEO)/ Chief Operating Officer (COO)/Other executive director

- FC and equivalent: Financial Controller/Finance Manager or equivalent

- Others: include Accountant, Assistant Accountant/Accounts Assistant/Finance Assistant and others



* By auditors of the companies the respondents represent

KEY CONCLUSIONS

CLARIFYING RESPONSIBILITIES

1. **Own the business, own the accounting:** Companies and preparers need to firmly take ownership over their financial statements. It raises grave concerns that around 50% of the survey respondents agreed with descriptions of their responsibilities that deflected such responsibilities to the auditors. Views from the focus group suggest that some company management are not fully engaged in financial reporting because they see it as a compliance exercise and many rely on their auditors to drive the process.

2. **Re-balance the relationship:** Companies have become accustomed to hand-holding from their auditors, which the focus group saw as a legacy of past practice.The accountancy profession as a whole needs to work on re-balancing the current relationship. This will not happen overnight and will require a multi-pronged effort beginning with awareness and education, and support to overcome the challenges identified in the survey.

3. **Make it relevant:** Taking ownership will alleviate common complaints about today's financial reporting such as complexity, over-reporting and boilerplate statements. Companies should take ownership of their accounting judgements and ensure that financial reporting is reflective of the companies' business activities and therefore truly relevant to users.

4. **Bring in the professionals:** With a better understanding of their responsibilities for financial reporting, companies will see their accountants not as back room compliance officers but as professionals who can help the company make better accounting judgements and provide tailored financial information for management and investors. With this mindset, companies would be better motivated to employ qualified accountants.

DEALING WITH CHANGE AND COMPLEXITY

5. **Dealing with complexity:** Frequent changes and the complexity of the financial reporting standards were ranked as the top challenge for preparers. The standards are also perceived to make financial statements insufficiently relevant to businesses. The accounting community should help companies apply the standards in a way that is most relevant to their business. The profession should also collectively strive to exercise greater influence over the development of the standards.

6. **Prepare the preparers:** Preparers need to anticipate the upcoming changes to the standards and plan ahead to identify information needs early, which will ensure that the necessary process and systems changes can be in place on a timely basis. Being seen as trusted advisors to companies, external auditors can assist in alerting companies to developments in the standards, and share international and industrial best practices.

7. **A real alternative for SMEs?:** IFRS/FRS for Small Medium-sized Entities (IFRS/FRS for SMEs) was aimed to provide an alternative for SMEs. However according to the focus group, there has not been widespread adoption partly due to it being perceived as a set of 'sub-standards' and the fact that IFRS/FRS for SMEs' reporting requirements are not sufficiently reduced to make it a practical and attractive alternative.

DEVELOPING CAPACITY AND CAPABILITY

8. **Talent, talent, talent:** The top measures believed to have helped companies to improve their financial reporting processes and quality of reporting were: Employing qualified accountants in the finance function; retaining finance personnel for longer periods; and keeping their technical knowledge current by continuous trainings.

9. **It starts at the top:** Tone from the top is important. Boards and Chief Executive Officers need to be convinced that external financial reporting is value-adding and not merely a compliance exercise. This will help them recognise the importance of having qualified professionals within their finance functions, and the need to support continual training of the finance functions.

10. **Help wanted:** Small and medium-sized companies generally face cost-constraints and a more severe talent crunch. They welcome support in the form of government funding, for technology and access to professionals. More awareness could be raised about productivity and capability incentives such as the Productivity and Innovation Credit and Course Fees Relief schemes.

11. **Help available but not taken:** Small companies are not as keen on outsourcing the preparation of their financial statements to external accounting firms or having temporary help from secondees of such firms. This was because of concerns over the potential costs and reluctance to involve too many external parties.

12. **Education before regulation:** Regulatory and monitoring measures were viewed less enthusiastically than education and support measures. While accountability and remedial measures were seen as having a role in inculcating the desired mind-set, the respondents could foresee practical challenges.

13. **Qualified accountants are a must:** The most supported potential regulatory measure was to require companies to employ qualified accountants, possibly linked to the respondents' view that the most effective measure to improve financial reporting in their company had been employment of qualified accountants.

VALUE OF AUDIT

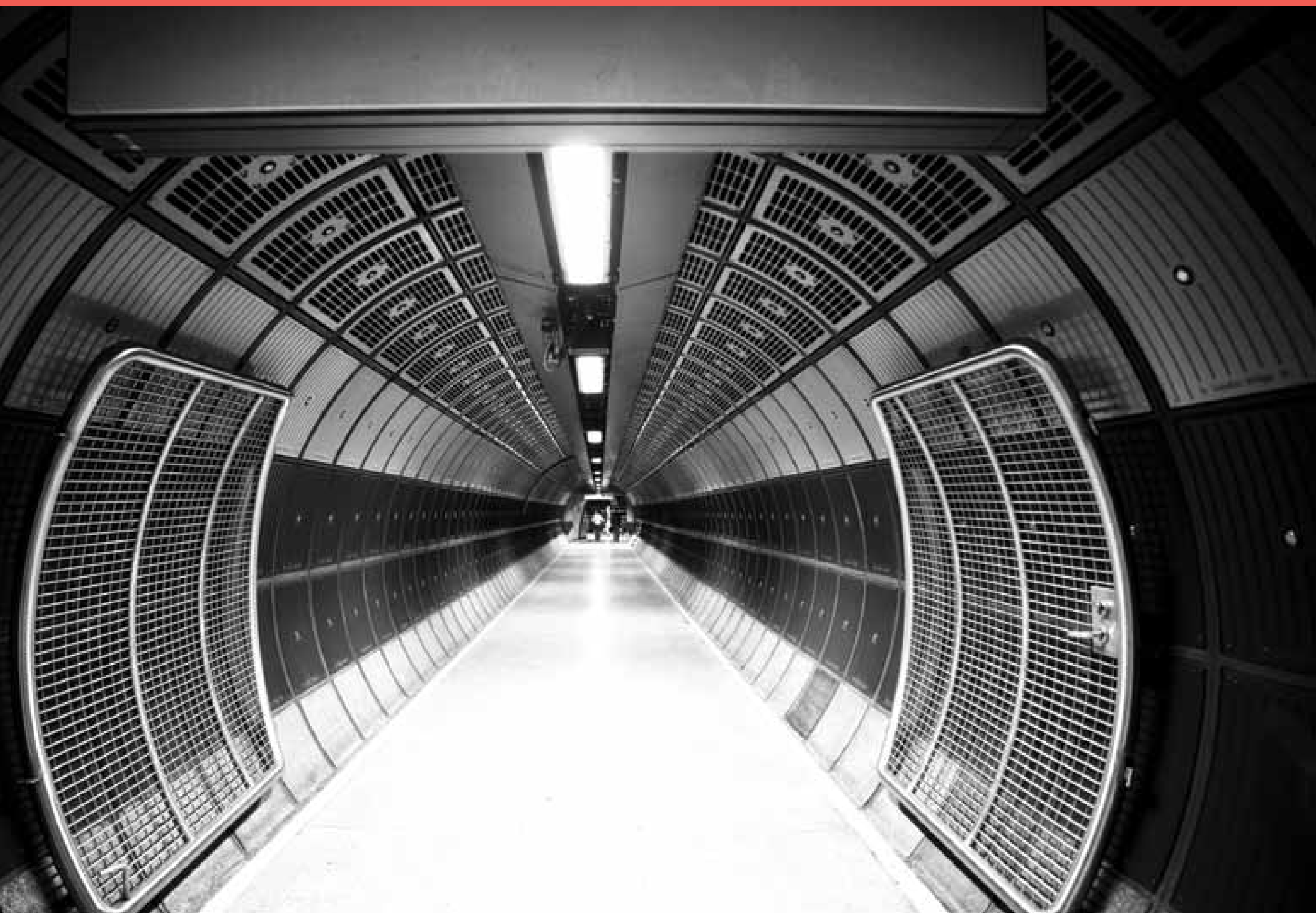
14. **Audit wanted:** An overwhelming 85% of the survey respondents indicated that they would still prefer to have the financial statements of their companies subject to an external audit even if they are exempted from a statutory audit.

15. **Auditors need to demonstrate more value:** 35% of the respondents agreed with the statement that their external auditors were not as helpful with their financial reporting because they needed to understand their business better. Hence, auditors need to ensure that audit teams have the necessary capacity and understanding of the business to bring value to the company beyond compliance.

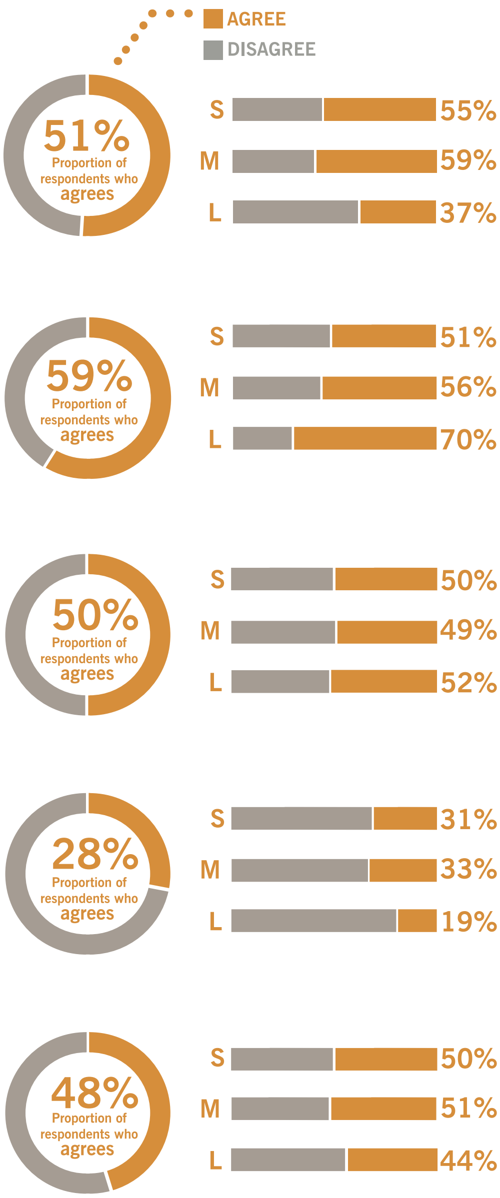
DETAILED FINDINGS

• Perception of responsibilities of auditors

In an earlier survey of audit staff in Singapore conducted by ACRA and ACCA in 2012, and similar surveys subsequently conducted in Malaysia and Thailand in collaboration with the audit regulators in those markets, one of the common responses received from the audit staff was that their counterparts in other parts of the world including Australia, UK and the US appear to enjoy a more sensible work-life balance, partly due to the fact that external auditors and clients have more clearly delineated roles. As a result, auditors in those markets are better able to focus on their auditing responsibilities, and not double up, to some extent, as 'preparers'.



To understand whether there remains a need for the accounting profession to educate companies on their responsibilities for financial reporting, the survey set out statements suggesting a different balance of responsibility for financial reporting between auditors and the company (board of directors/management), some of which were correct, clearly incorrect, or in a grey area. The survey asked respondents to pick the one(s) that represented their opinion about those responsibilities. [Table 1].



Company

I. To ensure that the company's financial statements comply with the accounting standards and other requirements, the directors and management engage experts, i.e. auditors, to produce them. Management are responsible for providing 'raw data' including the trial balance to the auditors to facilitate their work.

II. The company's management is responsible for the preparation of the financial statements and all supporting schedules, under the directions of the board of directors.

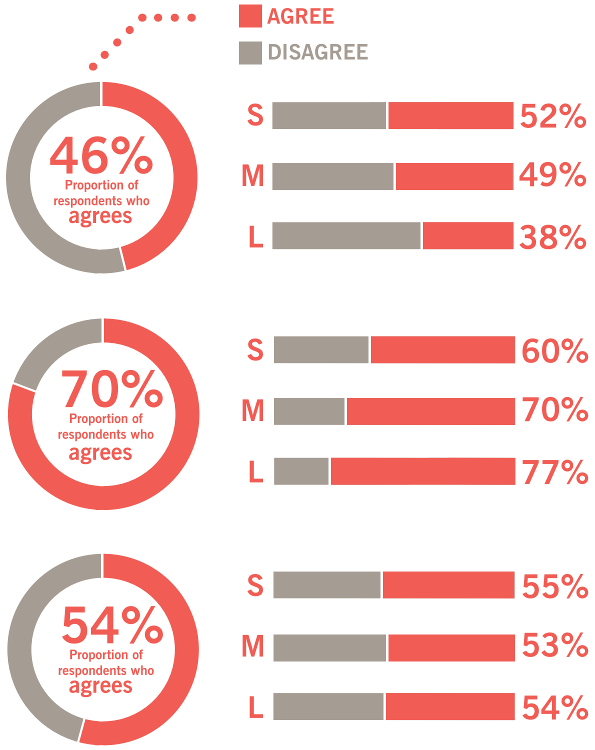
III. The board is legally responsible for the presentation of financial statements in accordance with the relevant accounting standards and the applicable regulations.

IV. The company can trust that the external auditors will conscientiously draft the financial statements to ensure all necessary requirements, accounting or otherwise, are adhered to given that they are professionals and their own reputation is at stake.

V. The board of directors, as advised by the management, is responsible for reviewing and approving the financial statements prepared by the external auditors before they are released.

[Table 1]

Survey question: 'Which of the following statements represent your opinion about the responsibilities of the company and the auditors with respect to financial reporting? (You may pick more than one from each category) - Company'



External Auditor

I. The external auditors are trusted experts in the preparation of financial statements and the company engages them to put the financial statements together in accordance with the accounting standards and other regulations.

II. The external auditors serve the shareholders' interests by giving an independent view of whether the financial statements comply with the accounting standards and other requirements, and should have no role in the preparation of the financial statements.

III. The directors and management need to give the external auditors all the necessary financial information (including the trial balance) and if possible a first draft of the financial statements, and the auditors are responsible for ensuring that the financial statements are ready and correct by the filing deadline.

[Table 2]

Survey question: 'Which of the following statements represent your opinion about the responsibilities of the company and the auditors with respect to financial reporting? (You may pick more than one from each category) - External auditors'

Deflecting responsibility

About 50% of the respondents agreed with statements that effectively deflected responsibility to the auditors. Statements I, IV and V effectively deflect the responsibilities to the auditors by alternately describing them as being 'engage(d)… to produce (the financial statements)' (I); 'will draft… the financial statements' (IV) and 'prepared' the financial statements (V). Statements I and V both garnered about 50% of the survey respondents' votes. Correspondingly, only a similar proportion of respondents agreed with the correct statements, II and III.

The survey respondents fared better with the three statements describing the auditors' responsibilities [Table 2]. The majority (70%) picked the right description (statement ii), although the erroneous statements i ('company engages them to put the financial statements together') and iii ('directors and management need to give the external auditors… if possible a first draft of the financial statements') each received about 50% of the votes as well.

Multiple threats to the financial reporting value chain

The above results reinforce the perception that there is insufficient demarcation of responsibilities between preparers and auditors. This situation creates multiple threats to the proper functioning of the financial reporting value chain. Firstly, companies' management and preparers who should best appreciate the rationale behind the significant transactions are not motivated to customise the financial reporting to convey a complete picture to stakeholders; secondly, external auditors are unable to focus on delivering optimised, value-adding services; audit staff are overburdened and demotivated; and thirdly and most critically, auditors' independence is called into question, with self-review threats inevitably compromising the quality of audit.

> Top management does not know that (the financial statements) is drafted by their own accounts staff and may even think it should be drafted by auditors. Auditors need to communicate clearly management's responsibilities and highlight who is involved in the preparation. (Perhaps auditors should communicate externally) whether (the financial statements have been) drafted properly, so as to encourage accounts staff to be more serious (in financial statements) preparation.
>
> **Survey respondent**

Correcting misconceptions

Generally, the level of misconception was higher for respondents working in smaller and medium-sized companies. More respondents from larger companies chose the 'right' options than their counterparts in small and medium-sized companies, and lesser of them picked the 'wrong' options.The difference in perceptions suggests that it is possible to alleviate the misconception if smaller companies can gain better awareness and access to resources, which presumably is less of an issue for larger companies.

The larger and smaller audit firms both have work to do to in communicating the auditor's role, but especially the smaller firms, according to the survey results.

For example, 41% of big-four clients that responded to the survey thought 'company engages (the auditors) to put the financial statements together' (i of Table 2). This was even higher for clients of other audit firms, at 56%. The audit profession should work in unison to clarify the auditor's role, while smaller firms need to be more persistent in establishing clear boundaries.

Participants in the focus group pinned down the misconception as a legacy issue, which requires coordinated efforts among auditors themselves and the profession as a whole to tackle. This requires more education and awareness-raising to inculcate the right perception and attitude in the preparers, board directors and senior management.

The need for pro-active change

Sometimes it takes a shock to the system to create such a change in mindset. For example, in Australia, a high profile case in 2011 involving Centro Group, one of Australia's largest listed real estate investment trusts, put the spotlight on the responsibilities of directors to read, understand and consider the contents of the financial statements before approving them. The case was considered a wake-up call for directors.

> The Centro case in Australia... where the directors, including the non-executive directors, were found liable for failing in their duty of care and diligence... sent 'shock waves' through the industry, such that more people are now aware (of the roles and responsibilities of directors in relation to financial statements).
>
> **Adrian Chan, director on various boards**

There will, hopefully, be no need for a Singapore Centro to send similar 'shock waves' before companies take better notice of their legal duties in Singapore.

The focus group participants discussed other reasons why it is important to get the balance of responsibilities right. Companies need to make accounting judgements and their judgements should be aimed not just at compliance but at making the financial statements more reflective of the company and so relevant to users.

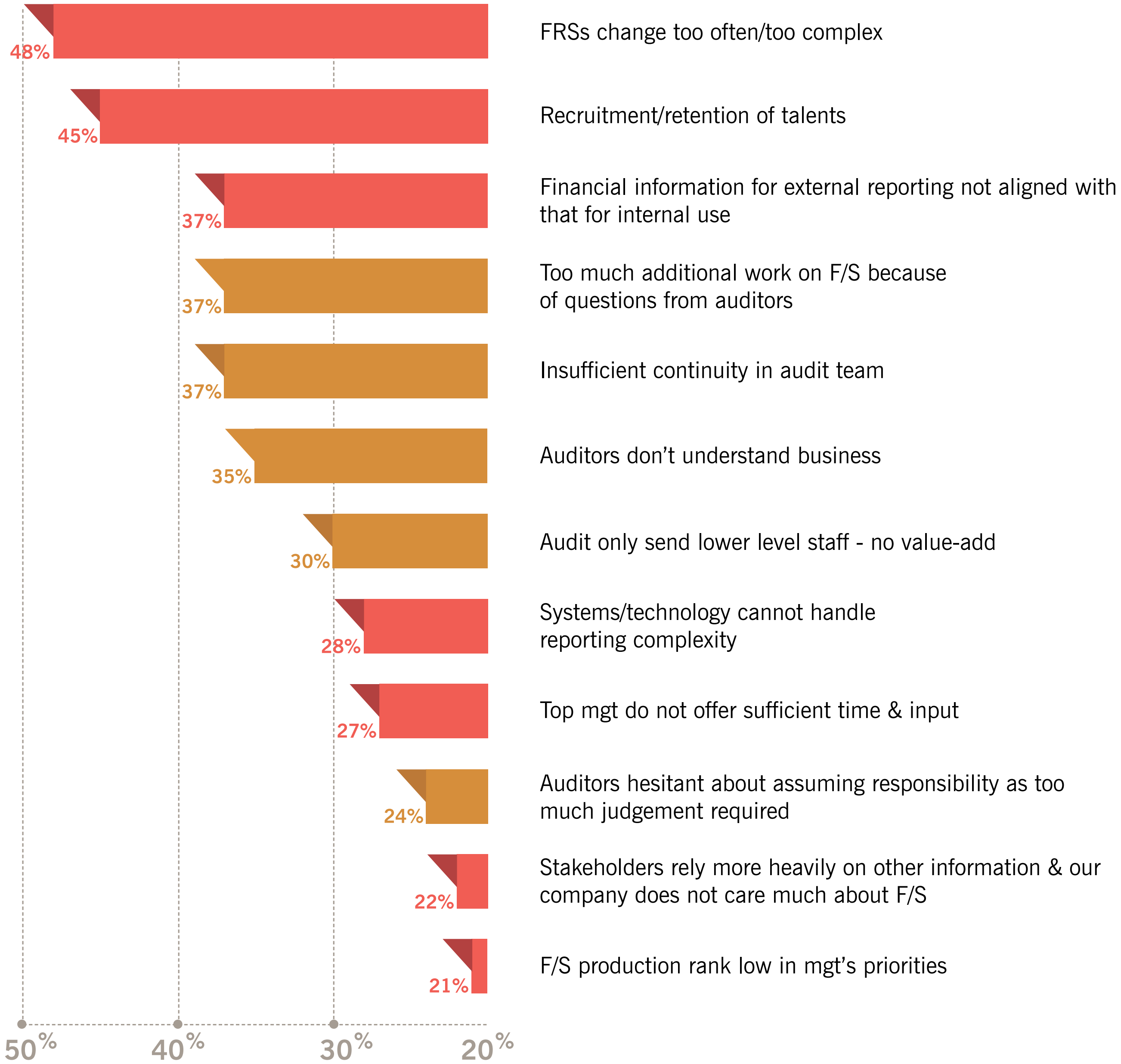
Companies should therefore see their accountants as professionals who can help tailor their financial statements and make such accounting judgements as necessary, rather than as someone whose job is to just act as a liaison with the external auditors and to ensure compliance. With the correct mind-set, companies would be better motivated to employ qualified accountants.

In the next few segments, we will share the results from the remaining survey questions that sought to identify the key challenges preparers face and the potential solutions that might be helpful in addressing those challenges.

THE CHALLENGES

To determine what key challenges preparers face, the survey set out a series of factors for the survey respondents to rank on a scale of 5: from 'Not a challenge at all' (1), 'Somewhat a challenge' (3) to 'A significant challenge' (5). A 'free-text' option gave the respondents an opportunity to indicate other significant challenges that may have been omitted from the list. Table 3 shows the proportion of respondents that rated each of the factors as either a challenge or a significant challenge (i.e. (4) or (5)). A separate analysis was done based on the weighted average scores, hence taking into consideration the distribution of respondents' selections across the 5 options. The ranking based on weighted average scores is consistent with that shown in the table.

Proportion of respondents that rated each of the factors as either a challenge or a significant challenge



[Table 3]

Survey question: ‘Please help identify the challenges to producing financial statements from your company’s perspective. Please rate the following factors on a scale of 1 to 5: from ‘Not a challenge at all’ (1), ‘Somewhat a challenge’ (3), ‘A significant challenge’ (5), or otherwise indicate ‘N/A’ if any is not applicable (e.g. comments relating to external auditors but your company is exempted from statutory audit and has not engaged an external auditor in the last reporting cycle)’ [% of respondents selecting (4) and (5)]’

1. Financial reporting standards and talent issues

The frequent changes to and complexity of the financial reporting standards emerged as the top challenge, followed by talent issues faced by preparers in assembling their finance/accounting teams. The positive news is, apart from these 2 factors, the rest of the issues appear to affect a much lower proportion of survey respondents and hence may be regarded as relatively minor.

I. Complexity and quality of reporting standards

> Even the former chairman of IASB, Sir David Tweedie, said 'If anyone tells me that they understand IAS 39, they probably haven't read it enough.' Some accounting standards can be so complex that even qualified professionals do not fully understand them if they do not use them routinely.
>
> **Derek How, Partner, RSM Chio Lim**

Singapore started converging to the International Financial Reporting Standards (IFRSs) many years ago. The Singapore standards (known as Financial Reporting Standards; FRS) are today almost fully aligned to the IFRS.

Complexity and relevance are issues for companies large and small

48% of the survey respondents found that the financial reporting standards change too often and are getting too complex for the company's finance team to fully appreciate and apply. There is no significant difference between the responses from companies of different sizes, although the proportion of respondents from large companies that identified this as an issue is slightly higher than average (51%).

In the free-text responses provided by some of the survey respondents, it is clear that beyond complexity, they are more concerned about how the current set of IFRS/FRS and the changes thereof seem detached from commercial reality.

> Some of the FRS requirements add nothing to the shareholders' (and other stakeholders') understanding...
>
> The accounting standards are becoming far too theoretical and lack practicality... (After the financial records are adjusted for financial statements reporting purposes) management has to spend significant amount of time reversing out all the judgemental valuations e.g. impairments, provision for onerous contracts, etc.
>
> Some of the disclosures such as FRS 107 are too difficult for management to understand... (let alone) appreciate its usefulness.
>
> Financial statements (are presented in) technical terminology that the management/board directors may not be able to comprehend... (thus rendering them less) useful.
>
> Financial report(ing) is not useful for operations management purpose. Often the business focus more on cashflow and project returns.
>
> **Survey respondents**

The feedback received gels with the challenge ranked next (37%), that 'financial information needed for external requirements (including financial statements, annual reports, quarterly reporting) is not fully aligned to the information being used to manage the business'.

Communication, Education, Participation

The comments suggest that communication is one of the key issues facing the accounting world today. There is a great need for the profession to educate and emphasise how the reporting principles and changes to them are expected to result in a better reflection of business performance. This should be part of the finance awareness mission and updates on reporting standards for preparers and management/board directors.

There may also be a need for the region to provide more feedback to the international standard setting body about aspects of proposed standards that may be incompatible with the local environment or have questionable 'realism'.

> "If (accountants) do not focus on (commercial usability), we will all become irrelevant because we will be our own profession, speaking our own language.
>
> **Lau Kok Keong, CFO, Beaute Spring Pte Ltd**"

With Singapore's commitment to adopt the IFRS the accounting community in Singapore has limited influence on the changes to the standards. At least one participant to the focus group discussion however felt that the limited influence Singapore has on IFRS should not stop us from trying.

> "The whole community, all accountants, must come together and see whether the changes are right for us and improve on the status quo... we have seen ASC (Accounting Standards Council), the professional bodies like ICPAS (now known as ISCA, Institute of Singapore Chartered Accountants) and the accounting firms playing their role, and what is most encouraging is that we are seeing more companies getting interested and voice their views. This is good and we need more of that.
>
> **Kok Moi Lre, Partner, PwC**"

One area where the reporting standards can be improved related to the application guidance contained in some IFRS/FRS.

> "Application guidance or standards (should) provide more realistic examples... often the examples given were too simplified.
>
> **Survey respondent**"

While it would not be possible to cater to every single real-world scenario, the standard setters (in this case, the International Accounting Standards Board, IASB) could invite case studies as part of its consultation process and provide official interpretation of the IFRS principles as applied to selected cases.

II. Plan ahead and be prepared

Some of the survey respondents and focus group participants felt that while financial reporting standards are not as straight-forward as before, professional accountants that have a good appreciation of the businesses under their charge and ample time to understand the accounting principles should not have any problem with applying those principles to their companies. The real issue, in their view, lies with lack of time and resources as preparation of financial statements is only one of the many finance responsibilities. For the larger listed companies that are required to report on a quarterly basis in particular, the demand for time means that there is always a strain on the resources and little space in which to make improvements.

> "Quarterly reporting requires dedicated resources which are difficult to recruit and retain. Furthermore, preparation of financial statements is (only) one of (the) many finance roles. Hence, (there is a) conflict for time and resources.
>
> **Survey respondent**"

> "For listed companies, quarterly reporting is actually pretty onerous. From one quarter to the next, there is only a small window of maybe two to three weeks to address – for instance new FRSs coming up; to plan for technological improvement and so on. There is only a very small window, so quite challenging.
>
> **Suzanna Cher, Senior Vice-president, CitySpring Infrastructure Management**"

> "I do not feel that the (FRS changes) pose too much of a challenge... as long as we work with our auditors... to identify... (how the changes) affect our company. I feel that the challenge (lies in) system limitation... information is not prepared in the way such that you can extract it to fulfil reporting requirements.
>
> **Michelle Kuah, Financial Controller, Rotating Offshore Solutions**"

If the transition time for financial reporting standards is short, data that should be readily available in theory is hard to extract because the information system was set up for the previous requirement. The focus group participants agreed that there needs to be foresight, and it is critical to plan ahead and identify information needs early so that there is greater possibility of changing any systems and other processes to help successful adoption of the new standards.

III. Over-reporting

An associated issue raised by participants at the focus group discussion was that there tends to be an overreliance on pro-forma financial statements/templates, which often results in boilerplate and excessive reporting, which in turn diminishes the communicative value of the financial statements. Board directors, management/preparers and even the external auditors are culprits of this practice, often due to unwarranted prudence. It was inferred that when the preparers are unsure, and yet unable to investigate due to time constraints, they will err on the side of caution and just retain a substantial portion of the pro-forma wordings instead of crafting the concise and informative disclosure unique to their companies.

> “… a lot of the information… are not (relevant) e.g. (what's written in the) risk disclosure notes are not exactly how management look at risk.
>
> **Survey respondent** ”

> “I think there is a danger that we will move to just fulfilling the form but not really asking this difficult question about whether we are making it relevant to the user.
>
> **Daniel Ee, director on various boards** ”

Survey respondents also highlighted that, in some cases, the auditors were insistent on including certain content in the financial statements even against the management's reasoned decision.

> “External auditors are not involved in and do not understand company business. Hence they should not dictate the form and content of information presented.
>
> **Survey respondent** ”

Some focus group participants expressed the same concerns, that even for a ‘plain trader’, certain auditors will follow the pro-forma template closely and will insist on including many boilerplate paragraphs ostensibly to speed up internal review process; so that they will not be questioned for omitting anything that may result in non-compliance with reporting standards.

The auditors in the discussion clarified that, in most cases, they appreciate preparers who take full ownership and make decisions on their financial reports.

> “I have clients who will insist that certain disclosures be excluded from their financial statements because they are not relevant. I respect and like such clients because they take responsibility and ownership of their financial statements. They have their views, they stand by it and they have good grounds for it.
>
> **Kok Moi Lre, Partner, PwC** ”

One participant suggested that when financial statements are reviewed for compliance with standards, over-reporting should be penalised accordingly in order to send out the right signal. The suggestion applies to both reviews of financial statements by the Financial Statements Review Committee (FSRC, of the Institute of Singapore Chartered Accountants (ISCA)) targeting the board directors and practice monitoring of independent external auditors by the ACRA.

> "You should penalise on over-reporting... got to hit it both ways... If you encourage them not to overdo things, I think it's going to make life easier for everybody.
>
> **Lau Kok Keong, CFO, Beaute Spring Pte Ltd**"

IV. IFRS/FRS for SMEs

There was also discussion within the focus group around the IFRS/FRS for Small and Medium-sized entities (IFRS for SMEs) as a means to reduce reporting burden for smaller companies. It was, however, apparent to the participants that IFRS for SMEs has not been widely adopted. Several reasons were identified.

> "In my firm, I don't see many of our SME clients adopting it. As companies usually expect to keep growing, I think one of the issues is the irritation of switching from their existing SFRS accounting framework to FRS for small entities and back again to SFRS when they expand beyond the threshold set for SMEs.
>
> **Derek How, Partner, RSM Chio Lim**"

> "(The mentality is) I want my company to grow; I want it to get listed one day... (so) I might as well do it now. And there is also certain (stigma) attached to this. People may think you are not up to it (preparing financial statements based on the normal FRS)...
>
> **Lau Kok Keong, CFO, Beaute Spring Pte Ltd**"

> "If you look at the technical differences, it's not much of a simplification. You have certain reduced disclosures, but if you have derivatives, you need to go back to (FRS) 39 and apply it. If you have share-based payment, you go back to (FRS 102 to) deal with it. For tax... they have a different model altogether.
>
> **Kok Moi Lre, Partner, PwC**"

It was felt that the IFRS for SME may not be fit for purpose and the Singapore accounting community should strive to influence future changes to it in order to make it more relevant, concise and truly user-friendly for the smaller companies. The associated stigma should also be countered through better education. One way would be to showcase selected successful small businesses that have benefited from adopting it, for example through enjoying reduced costs without materially compromising the quality of their reporting.

V. Talent issues

According to the survey findings, 45% of the respondents found recruiting and retaining qualified/trained people in the finance team a challenge or a significant challenge.

> “We have a tight labour situation, and especially coupled with the fact that… there is poor work/life balance for people in this industry… there would be a continuous loss of talent and experience.
>
> **Daniel Ee, director on various boards**”

> “It’s not sexy anymore to be in this line. I have tried very hard to train up people from school and so on. After one or two years, they are ready to fly and they will fly away… out of the industry, no longer doing accounts or finance. They will join the banks or others. (If) we keep saddling them with more things, it is going to (result in further talent drain).
>
> **Lau Kok Keong, CFO, Beaute Spring Pte Ltd**”

From the survey, there was a discernible difference in the talent challenge between responses from public listed companies (40%) and non-public ones (48%), which suggests that talent tends to gravitate towards public listed companies due to the exposure and experience they offer. The remuneration packages are typically more attractive as well.

There was consensus from the roundtable participants that a systemic and fundamental change is needed to address the talent issue, which is closely associated with the other issues around financial reporting standards; especially the common misperception that financial reporting is merely a compliance function rather than a communication or enabling function. This attitude causes some companies to undervalue qualified accounting staff.

> “When I put on my director’s hat, I leave the compliance side of the financial report to my finance team. I only look at the figures, the bottom-line, where are we going to generate the next cash-flow or the next opportunity.
>
> **Lim Seng Choon, CFO, Arcomet Asia**”

> “In certain organisations, accounting and finance are considered a support function. Often, when we try to engage management to talk about impact of financial reporting standards, for example, revenue recognition, we get a response ‘what recognition? To us, bringing in the sales is more important!’
>
> **Lee Boon Teck, Partner, Deloitte & Touche**”

In the example raised above, the CFO and their team face a big challenge trying to convince their colleagues that revenue does not necessarily get recorded the moment they ‘bring in the sales’. Finance is often deemed a back room function, and therefore draws insufficient attention and focus from the business.

2. Audit-related 'challenges'

Some audit-related 'challenges' were included in the survey options. While the majority of respondents did not pick these as challenges, the proportion of respondents that the audit profession should pay attention to these issues, especially auditors of SMEs. A significantly higher proportion of respondents working in non-listed companies (excluding those that have listed parent companies and those that have plans to list within 3 years) had auditor related challenges, as compared to respondents working in listed companies. The relevant percentages are reflected for each factor below.

- *A lot more work on the financial statements needs to be done at the end of the year because of questions from the auditors. (overall: 37%; non-listed: 43%; listed: 25%)*

This option was introduced as a 'red herring' as, clearly, increased audit enquiries and the volume of resulting adjustments and amendments to the financial statements should be taken as a sign that the internal financial reporting process needs to be improved. In short, it signals the degree of improvement that companies need to make, rather than suggesting that questions from the auditor are a challenge to financial reporting quality. Listed companies, likely by virtue of the better established finance function, have lesser issue with this.

- *Our external auditors are not as helpful with our financial reporting process as we expect because the audit team members change often and so there is insufficient continuity to facilitate proper and meaningful audit. (overall: 37%; non-listed: 41%; listed: 29%)*

Although strictly speaking not related to the preparation of financial statements, the challenge highlighted by preparers is worth noting by audit practitioners.

> "Audit firm(s) in Singapore are recruiting unqualified staff and allowing them to... conduct (the) audit. (Due to the) very low capabilities, (they are not able) to facilitate proper and meaningful audit... (causing) inefficiency to client's finance team.
>
> **Survey respondent**"

Audit engagement teams serving non-listed companies are generally not as well-staffed in terms of experience and continuity as teams on listed companies, which may explain why non-listed companies appear to have a bigger issue with auditors' continuity.

- *Our external auditors are not as helpful with our financial reporting because they need to understand our business better. (overall: 35%; non-listed: 39%; listed: 25%)*

Generally, a higher proportion of survey respondents working in smaller companies picked the 3 audit-related 'issues' compared to average, and in particular, the difference is quite marked when it comes to the need for a better understanding of the client's business. A much higher proportion of respondents from small companies (44%) identified with this statement compared to the respondents from large companies (26%).

Understanding the business is especially important to help alert preparers to changes that could have an impact on their companies. As can be seen in the later segment discussing value of audit, in practice, preparers rely heavily on auditors to bring them up to speed with developments in financial reporting standards. For 44% of the respondents working in small companies, it appears that the auditors either have not invested sufficient time to alert their clients on upcoming issues, or their portrayal of the audit value to the preparers has been less than ideal.

Auditors need to play their role too

While companies' and auditors' have clearly defined legal responsibilities for financial reporting, independent auditors need to review how they have played their roles as providers of assurance to bring the most value to the audit.

The cornerstone of a quality audit is a sufficient understanding of the client's business. This includes understanding where the key risks lie and how management design and implement internal control procedures to address risks and ensure reliability of financial reporting.

Sufficient and timely engagement with management throughout the audit, especially by the partner and experienced professionals on the team, will be to key to enhancing the engagement team's knowledge of the business and efficiency and effectiveness of the audit process.

SOLUTIONS?

The survey flagged up a few important and fundamental challenges facing the financial reporting value chain today. They included the practicality and perceived communicative values of the financial reporting standards being used in Singapore and the indistinct split of roles between auditors and their clients. These challenges are deep-rooted and can only be tackled through long-term coordinated efforts by all the players in the value chain. In the meantime, it would be worthwhile reviewing some remedies that can be more readily prescribed, which may not fully resolve the root issues, but can help address some of the 'symptoms'.

This part of the survey was split into two:

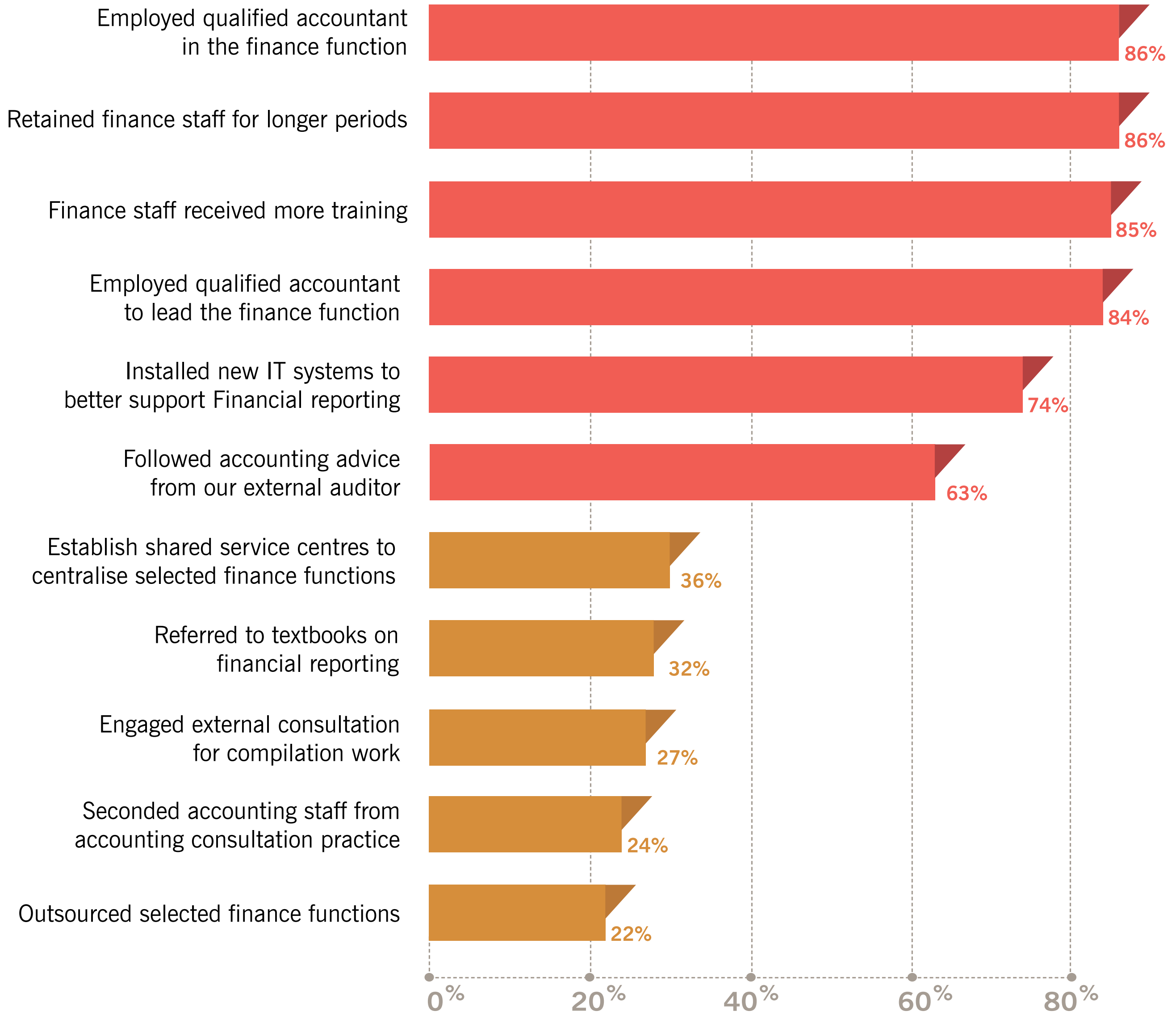
1. The survey respondents were first asked to think about what had helped them in the past, and to rate a series of measures in terms of how each has already helped their company improve its financial reporting process and the quality of financial reporting;

2. They were then asked to rate a separate series of potential fixes in terms of how well they believe each will help improve the quality of financial reporting, taking into account how effective the respondents perceive them to be, as well as the potential cost and time involved.

The ratings involved a scale of 5: from 'Not helpful at all' (1), 'Neutral' (3), to 'A great help' (5).

1. Past Experience

Table 4 captures the proportion of survey respondents that rated each factor as helpful (i.e. (4) or (5)).



[Table 4]

Survey question: 'Based on your experience (in present and past employments), please rate the measures on a scale of 1 to 5 (5 being the most helpful, and 1 not helpful at all) in terms of how each has helped your company improve its financial reporting process and the quality of financial reporting before. If you/your company have not undertaken such measure, indicate 'N/A'. [% of respondents selecting (4) and (5)]'

Professional Talent and Training

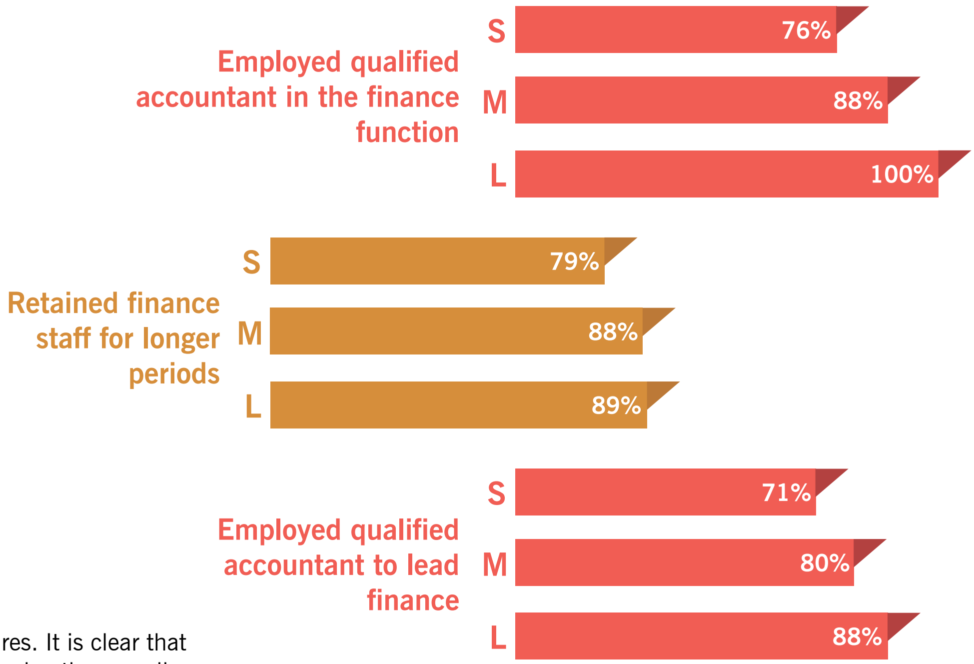
The respondents' experiences suggest that the most effective measures were human resource/capability measures, such as: Employing qualified accountants (defined here as a member of any professional accountancy body e.g. ACCA, ISCA or others) in the finance function and/or to lead the finance function; retaining finance personnel for longer periods; and keeping their technical knowledge current by continuous trainings.

The survey respondents also endorsed two other measures: Installing IT support system to better support reporting, presumably mainly to facilitate information gathering; and following accounting advice from the external auditors.

There were interesting variations based on size of the companies the respondents were from.

[Table 5]

Table 5 Same as Table 4
[S: small companies;
M: medium-sized companies;
L: large companies]



[Table 5] shows 3 of the top measures. It is clear that the largest companies place higher value than smaller companies on employing qualified accountant(s) and on finance staff retention. Specifically, in terms of having a qualified accountant in the finance function, 100% of the respondents from large companies found it 'helpful' while for the small companies, it was a marked lower (although still high) 76%.

From the same table, another noteworthy observation is that while it was deemed valuable to have qualified accountant lead the finance function, respondents generally thought that as long as there is a qualified accountant, that individual need not necessary lead the function. The difference is most pronounced for the large companies. This finding resonates with a separate study conducted by ACCA in 2012 where it was asserted that leadership and soft skills were relatively more important than technical knowledge for the finance leader of a large organisation, which is typically supported by adequate technical resources.[1]

[1] The Value of the Modern CFO - Board Directors' Perspective, ACCA-Singapore CFO Institute, June 2012; The value of the Modern CFO-CEOs' Perspective, ACCA-Singapore CFO Institute, October 2012. Both reports were comissioned by the Pro-Tem Singapore Accountancy Council.

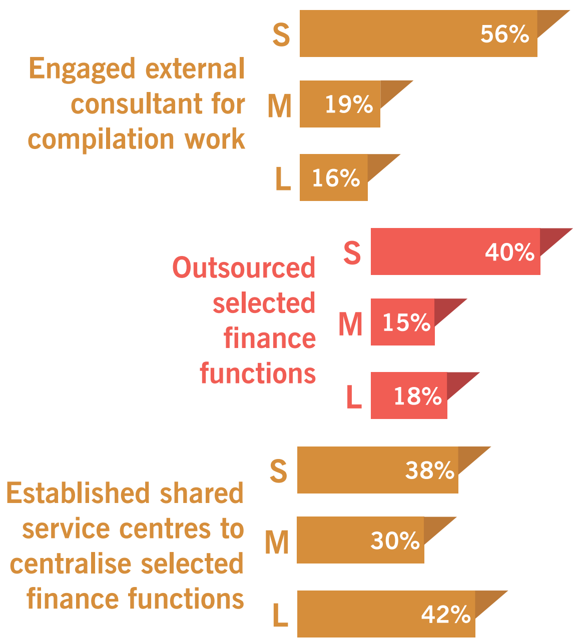
A separate analysis based on the position held by respondents also yielded a couple of interesting observations. Close to 90% of respondents who were holding the position of financial controller (FC) and equivalent were convinced that more training for the finance staff had been a contributing factor to better financial reporting; compared to a considerably lower (though still high) 76% of CFO and equivalent who thought the same. A generalised interpretation would be that the finance staff 'on the ground' appeared to place greater value in training than their finance leaders. In addition, in relation to following accounting advice from external auditors, financial controllers appeared more convinced than the CFOs that it had been helpful (FC: 68%; CFO: 54%).

Audit teams, whether the engagement management or fieldwork staff, should consider deeper engagement of the finance chiefs in the client companies, and the overall finance team, to better demonstrate their reporting expertise.

External Help

[Table 6] shows the analysis for 3 of the factors that did not garner as many votes: Engaging external consultant for compilation work; and outsourcing selected finance functions vis-à-vis establishing shared service centres to centralise those selected finance functions.

Engaging external consultants for compilation engagements and outsourcing selected finance functions worked significantly better for small companies than for the medium and large-sized ones. This is likely attributable to the smaller set-up and more limited resources in the small companies. Large companies were more inclined to set up finance shared service centres (FSSCs), and all else being equal, FSSCs should yield greater benefits for larger companies, although from the survey findings, the difference in perceived benefits between the large and small companies is not as significant as one may expect.

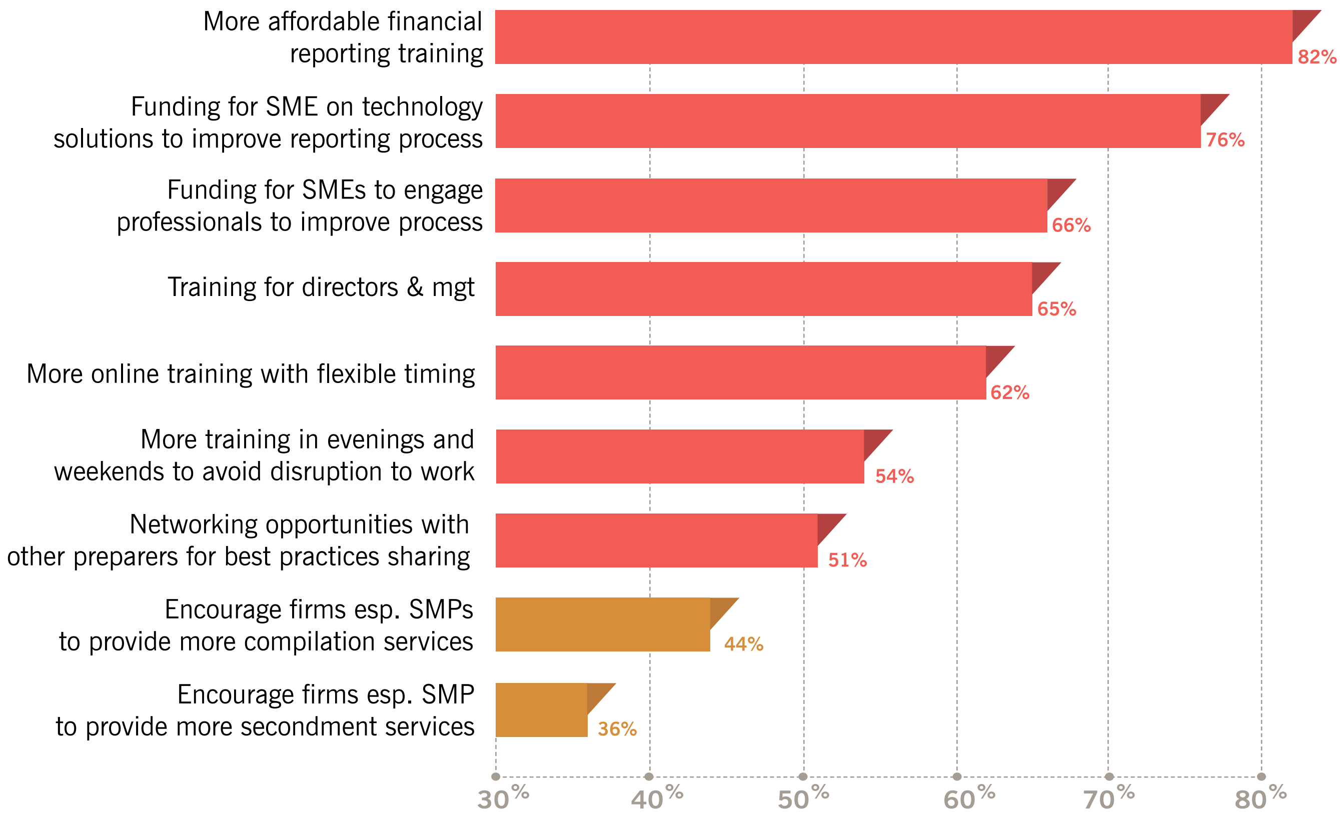


[Table 6]

[S: small companies;
M: medium-sized companies;
L: large companies]

2. Potential fixes

Preparers are in a good position to determine the kind of measures that can best help them improve the quality of their financial reporting. In the second part of this survey segment, a list of measures segregated into 'practical measures' and 'accountability and capability measures' was put up for the survey respondents to assess and rate. Again, on a scale of 5: from 'Not helpful at all' (1), 'Neutral' (3), to 'Potentially a great help' (5). Respondents were explicitly reminded to take into consideration the cost and time that they believe will be involved in rolling out the measures, and to use that consideration to moderate the perceived effectiveness.



[Table 7]

Survey question: 'Please rate the solutions listed in terms of how well you believe they will help improve the quality of financial reporting in your company, on a scale of 1 to 5: from 'Not helpful at all' (1), 'Neutral' (3), 'Potentially a great help' (5), taking into account how effective you think they will be as well as the cost and time involved. Indicate 'N/A' if the option is not applicable to your company (e.g. the SME initiatives if you do not work for an SME). - Practical measures [% of respondents selecting (4) and (5)]'

I. Training

[Table 7] captures the proportion of survey respondents that indicated each measure as potentially helpful/great help (i.e. (4) or (5)). Most of the measures were rated favourably, with ‘More affordable training on financial reporting by regulators, accounting bodies, consultants and other professional bodies’ garnering the most support, and other training-related measures (training for directors and management; more flexible training arrangement and so on) getting majority votes as well.

Given the perceived complexity of the financial reporting standards, the respondents clearly recognised the importance of educating the preparers, management and board directors and keeping them abreast of any updates and developments.

During the focus group discussion, participants were not surprised by the results of this solutions segment, but generally thought that in Singapore, training is already affordable enough, and there are other more pertinent concerns relating to training that warrant consideration, namely willingness to invest time and money.

> “(Training) will entail costs… I think what is important is the awareness from the company’s management… their willingness to invest (in the training). At Citi, we are prepared to invest in our people as we take talent development seriously.
>
> **Daniel Johan, Financial Reporting Head, Citibank Singapore** ”

> “For smaller companies, it’s not just the costs; it’s the time as well. They cannot afford the time to go attend a day’s training.
>
> **Basil Chan, director on various boards** ”

> “(Sometimes) you get ‘rejections syndrome’ from the staff. They don’t want to go (for training) because ‘If I go, I come back, work piles up’.
>
> **Lau Kok Keong, CFO, Beaute Spring Pte Ltd** ”

The lack of time might explain why other survey options touting flexible training arrangements (evening/weekend classes, online training) were received favourably in the survey. Other focus group participants, however, thought that bosses should recognise that continuous learning is critical and should allow preparers to devote office hours to training, and accept that as part and parcel of business costs. Using evenings and weekends to attend lessons exacerbates the work/life ‘imbalance’ that some accountants are experiencing and perpetuates the wrong perception that going for training is an excuse to shun the ‘real’ work.

> “Company is not willing to invest in training, (resulting in) staff knowledge over time staying stagnant and becoming redundant. In order for the staff to stay relevant, government should train the directors and human resource… (as currently, training) comes across as a privilege.
>
> **Survey respondent** ”

Other participants observed that training quality can be inconsistent, and that individuals who have gone through trainings may still not know how the principles should be applied to their own company.

The directors in the focus group reflected on the survey finding that 65% of the respondents believed training for directors and management would be helpful.

> I think (the survey respondents) are trying to tell us (directors) something!
>
> Directors generally do not see financial reporting as an area important enough for them to attend. They will likely send their CFOs, FCs and so on. Whereas when it comes to governance and so on, fraud cases, these are topics that will probably interest them to attend.
>
> **Basil Chan, director on various boards**

It was generally agreed that training on financial reporting for management and directors should be more targeted and customised.

> What we have done before is to get the auditors to give us a briefing on upcoming FRSs. So one that is tailor-made for our organisation. We have a more intimate discussion with the auditors, and that satisfies the need better.
>
> **Daniel Ee, director on various boards**

> Training for directors and preparers should have a different focus. For preparers, we will focus on getting them to understand the concept and what is required as the inputs because they need to take that away and know what the implications are for their systems; how are they going to implement it; how are they going to gather the data needed to produce those information that need to be reported on. But for directors, we usually focus on the judgement areas – where the estimates are; what can go wrong; where it can go wrong; what are the questions you need to ask the preparers and the auditors to make sure that you are comfortable with the judgement and the estimations made.
>
> And (for preparers especially) it's not just about learning about the FRS during training… it's a networking opportunity and very beneficial for the finance managers, the VP of finance, getting to know people of similar background or similar industry with whom you can bounce ideas and issues off.
>
> **Kok Moi Lre, Partner, PwC**

In relation to affordability of training, it was highlighted during the discussion that the Singapore government offers a Productivity and Innovation Credit (PIC) scheme that aims to encourage companies to invest in innovation and improve productivity. The PIC scheme is administered by the Inland Revenue Authority of Singapore (IRAS). One of the qualifying PIC activities is training for staff, and the company can claim tax deduction amounting to 400 per cent of the expenditures, subject to an annual cap on the expenditures allowed for deduction.

One of the survey respondents suggested that the PIC scheme should also be extended to individuals.

> Government should also extend tax incentives to individuals. (The Productivity and Innovation Credit (PIC) scheme) is only targeted (at) companies. But some companies are not willing to invest in their staff. PIC should (be made available to) individual who want to upgrade their own skills.
>
> **Survey respondent**

In fact, individuals do enjoy certain Course Fees Relief (also administered by IRAS). More communication from the relevant authorities would perhaps be useful to create greater awareness of the various initiatives available to both companies and individuals.

II. SMEs

Recognising that small and medium-sized companies are often in greater need of support and help, a few of the survey options were targeted at them.

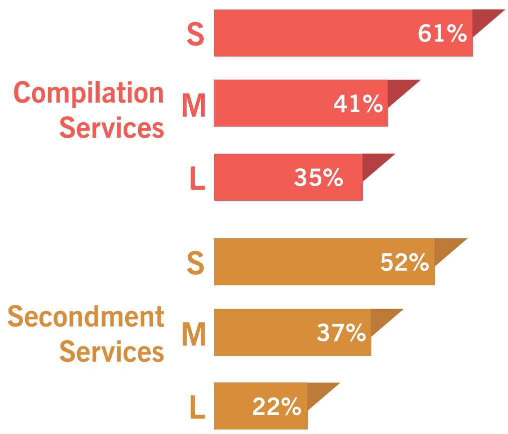
Funding incentives scored well. 76% felt that funding of technological solutions would help and 66% felt that it would be helpful to have funding to engage professional/consulting services to set up or improve finance function and processes.

Respondents from medium-sized companies were more keen than those from small companies on the incentive for technological solutions (M: 80% vs. S: 68%); whereas small companies were more keen than medium-sized ones on the incentives to engage professional help to improve finance function and process (S:71% vs. M: 64%). This perhaps reflects that companies have different needs at different stages of their development.

SMPs are often regarded as trusted advisers of businesses, especially for small and medium-sized companies. The survey hence sought to gauge the preparers' interests in gaining help from SMPs (who are not the external auditor) on the preparation of financial reports, namely, more compilation services and secondment services. Based on the survey results however, these are the less popular 'fixes':

- Encourage audit firms (especially the small-medium practices) to provide more compilation services i.e. help companies put their financial statements together, at reasonable fees, before the independent external auditors conduct their audits - 44%;
- Encourage audit firms (especially the small-medium practices) to provide more secondment services at reasonable fees so that trained professional(s) can be engaged to assist with the financial statements preparation process on a contract basis - 36%.

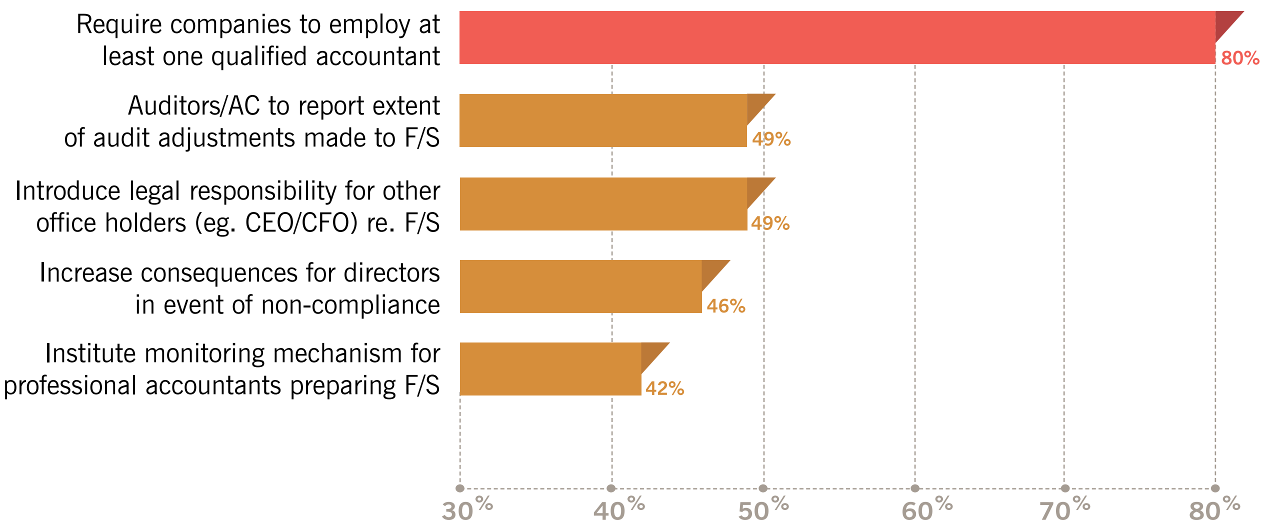
The results show that companies of different sizes prefer different kinds of help from external sources.



The large companies, and to a lesser extent, the medium-sized ones, were likely not as interested because they would generally have in-house finance teams with sufficient capability and capacity. Reflecting on why the take-up rate is not high even at the small companies level, the focus group participants felt that there could be a few reasons, including the desire to keep involvement of outside parties to a minimal; apprehension about the service provider's ability to understand the business well enough within the short timeframe to do a competent job; and the fact that costs will always be a concern, given the cost-consciousness of businesses in Singapore, and especially given the present mentality that they are already paying fees to the external auditors to 'do the same job'.

> Given the present mind-set that auditors are responsible for financial statements, they expect that 'the auditor can help resolve this'.
>
> Once the audit exemption threshold is raised, and if you pose the question again, perhaps you will see a higher take-up rate because companies which were previously not exempted from getting audited may opt for a compilation and they may consider getting an SMP help with.
>
> **Derek How, Partner, RSM Chio Lim**

III. Accountability and capability measures



[Table 8]

Survey question: 'Please rate the solutions listed in terms of how well you believe they will help improve the quality of financial reporting in your company, on a scale of 1 to 5: from 'Not helpful at all' (1), 'Neutral' (3), 'Potentially a great help' (5), taking into account how effective you think they will be as well as the cost and time involved. Indicate 'N/A' if the option is not applicable to your company (e.g. the SME initiatives if you do not work for an SME). - Accountability and capability measures [% of respondents selecting (4) and (5)]'

[Table 8] lays out the survey responses to the second set of potential fixes, the 'accountability and capability measures'. As before, it shows the proportion of survey respondents that indicated each measure as potentially helpful/great help (i.e. (4) or (5)).

Unlike the first set of 'practical measures' as shown in [Table 7], where the bulk of the suggested measures were rated favourably, only one of the measures in this set, 'Require companies to employ at least one qualified accountant to be involved in the preparation of financial statements' received majority votes, albeit an overwhelming one.

The strong support for employment of qualified accountant(s) echoed the earlier finding where survey respondents shared that having either a qualified accountant in the finance team or leading the team had been effective in improving the financial reporting process and quality of financial reporting [Table 4].

In the focus group discussion, there was general agreement that mandating the hiring of qualified accountants for companies beyond certain size is a sensible approach. There could be a combination of stick and carrot approaches.

> This is a complex issue and no country has it. I think the accounting bodies should consider more robust encouragement. At the same time, an incentive should be offered by the authorities. For instance, tax incentives can motivate companies to realise 'I need to do it and I am getting help from the government in terms of costs'. Once the company appoints a qualified accountant, they will realise the advantages and value-add the professional can bring to the organisation.
>
> **Derek How, Partner, RSM Chio Lim**

> Assist SMEs to employ qualified finance staff through certain incentive or rebates, or assist them to train and retain these staff by sharing payroll costs and/or training costs.
>
> **Survey respondent**

Not all survey respondents were convinced that employing qualified accountants would be of help though.

> Qualified accountants themselves are often so out of touch with latest requirements. Forcing companies to hire such accountants will not help in any way.
>
> **Survey respondent**

Even though the perception of outdated professional accountants did not appear pervasive from the survey responses, it is one that is worth noting. While professional bodies can institute continuous professional development requirements and facilitate learning opportunities, the responsibilities ultimately rest upon accountants themselves to constantly upgrade and update their knowledge and skills.

Some survey and focus group participants questioned if learning more about financial reporting standards, updating technical knowledge and skills rank high on the priorities of company management and preparers, and said the challenge was to make financial reporting a higher priority amongst business people.

> The largest obstacle is the business community, which will generally resist educating themselves about financial reporting unless penalties are applied for failing to do so.
>
> The idea of professional accountants sounds good. However, what… legal and professional responsibility does one have?
>
> **Survey respondent**

> It has been my experience that when it comes to training for directors, it is difficult to get the executives to come forward. The CEOs, CFOs… they are seldom interested. Their KPIs are sales, profits, share price; not regulatory compliance.
>
> **Adrian Chan, director on various boards**

It was not unexpected that a large proportion of the respondents, who were preparers, were not particularly supportive of the survey options that would attach further legal responsibilities to the preparers and management and regulation of the preparers.

It was clear that the CFOs (and their equivalents) are consistently less receptive of the suggested accountability and capability measures than the FCs and equivalent. For example, the option on introducing a form of direct legal responsibilities to key office holders like CEOs and CFOs garnered majority support from FCs (53%) compared to 40% from CFOs, again not an entirely unexpected result.

The regulatory-driven approach in the 'accountability and capability measures' was intended to elicit a debate on the balance to be struck between a market-driven approach and a regulatory one. This of course provoked a range of views.

> (We should) increase directors and management's statutory responsibility in the preparation of financial reporting and in no/limited circumstances where auditors should be made to prepare financial statements. Relevant training/updates should be made compulsory for finance staffs to maintain standard in the industry and checks should be in place to ensure compliance by company.
>
> Important to encourage self-governance in financial reporting more than external quality assurance and discipline which would increase cost of doing business.
>
> Wielding the stick should not be the first approach… Having applicable and practical financial reporting standards that are well understood are more important. Companies have to understand how preparation of financial statements and the required disclosures could streamline operations better and shape their finance function for more complex transactions.
>
> The above are all about using the whipping stick but the accounting fraternity needs to examine the reasons why management and the public at large are not paying significant attention to financial reporting and do not view it as value adding. The trust needs to be rebuilt. Until we reach that stage, financial reporting will always be viewed as merely a statutory requirement.
>
> **Survey respondent**

Some of the survey respondents also provided valuable inputs on what the practical challenges of implementing some of the measures may be.

Legal Responsibilities for CFOs

The focus group identified the risk that regulation of preparers might discourage qualified accountants from such roles, especially if such responsibilities were attached to SMEs.

> If direct legal responsibilities are imposed on CFOs, it will be even more difficult to attract qualified accountants to join SMEs.
>
> **Adrian Chan, director on various boards**

Reporting on Audit Adjustments

One respondent questioned the usefulness of reporting on audit adjustments.

> Report on audit adjustment is not a very practical solution as the adjustment mostly are to account in timing differences and also the value of transaction could vary by entity's size & the industry… so not the best way to measure capability..
>
> **Survey respondent**

However, such comments reinforce the need to examine the nature of audit adjustments because, in theory, auditors should not need to make such adjustments. This comment does however highlight the importance of whether adjustments are a useful and comparable measure. Auditors are already required to communicate to those charged with governance (including the audit committees) uncorrected misstatements aggregated and considered not material by management, and are likely communicating audit adjustments that have been made too. If a standard report were to be developed for auditors or audit committees to record the extent of audit adjustments made to the management's draft financial statements, both to the reported numbers and disclosures, such report will have to be principles-based and reliant on the auditors' or audit committees' judgement.

Monitoring Mechanisms for Professional Accountants

The least popular survey option was on monitoring: 'Institute monitoring processes or a form of quality assurance for professional accountants who prepare financial statements, just like external auditors, supported by a remedial and discipline process', though there was agreement that monitoring and accountability are important.

Some survey respondents were unclear how such monitoring measure would be different from an external audit.

> An audit after an audit? I thought the audit is supposed to do the checks of the financial statement already?
>
> Monitoring processes/quality assurance is just repeating the external audit process… double effort for (the) same results.
>
> **Survey respondent**

While auditors check the financial statements, they are not responsible for ensuring that preparers of financial statements uphold the high standards required of professional accountants. The difficult question is whether it is possible to provide additional monitoring or remedial measures to drive improvement and promote trust in the system.

> I think without monitoring, we are not going to really get there. What is not measured usually does not get done. We could work on a 'risk-based' monitoring model. Focus on the risky ones and at the same time, work on getting that mindset and discipline of quality financial reporting.
>
> **Kok Moi Lre, Partner, PwC**

> The Accounting and Corporate Regulatory Authority in Singapore appears to many to be little more than a registry and does not appear to regulate as much as its name suggests. Most companies and accounting professionals are doing as they please in the (current) laissez-faire regulatory environment. This must not be allowed to continue.
>
> **Survey respondent**

Ethical Factors

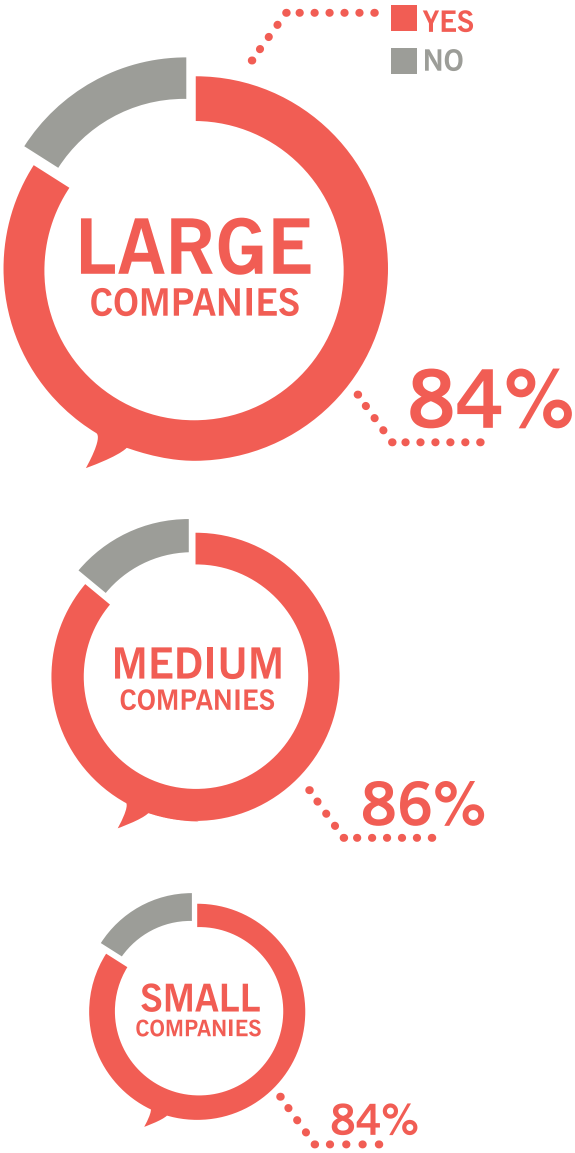
Separately from the practical considerations, there was other feedback that might trigger reflection on the duties of an accountant and their role in ensuring trust and upholding the public interest:

> CFO or FC (reports to)… the CEO. It is not practical to make them responsible. Preparer of financial information may be coerced into… manipulating or inflating financial balances to suit management.
>
> Most of the time the professional accountants or persons preparing the accounts receives directions & instructions from the management or board of directors, hence to penalise them for the BOD or management's instructions will not be fair.
>
> **Survey respondent**

The concerns expressed by survey respondents highlight a practical moral challenge that individuals may be facing. Ethics and integrity are requisite elements of the value the profession brings. Professional accountants are bound by ethical codes. As stated in the Ethics Code promulgated by the International Federation of Accountants (IFAC[2]), the professional accountant's responsibility is 'not exclusively to satisfy the needs of an individual client or employer' and they 'should not allow bias, conflict of interest or undue influence of others to override professional or business judgments'.

Some form of legal obligation may actually help professional accountants fend off undue influence and make clear to their employers what their professional obligations are (now reinforced with legal obligation).

[2] http://www.ifac.org/Ethics/



[Table 9]

Survey question: 'If the company were to be exempted from audit, for example as a result of regulatory change, would you still prefer the financial statements of the company to be subjected to an external audit?' [% of respondents that selected 'Yes']

VALUE OF AN INDEPENDENT EXTERNAL AUDIT

As part of the survey, ACRA and ACCA were keen to understand the value of an independent external audit from the preparers' perspectives. In order to extract the perceived value of audit from the survey respondents, a hypothetical question was raised:

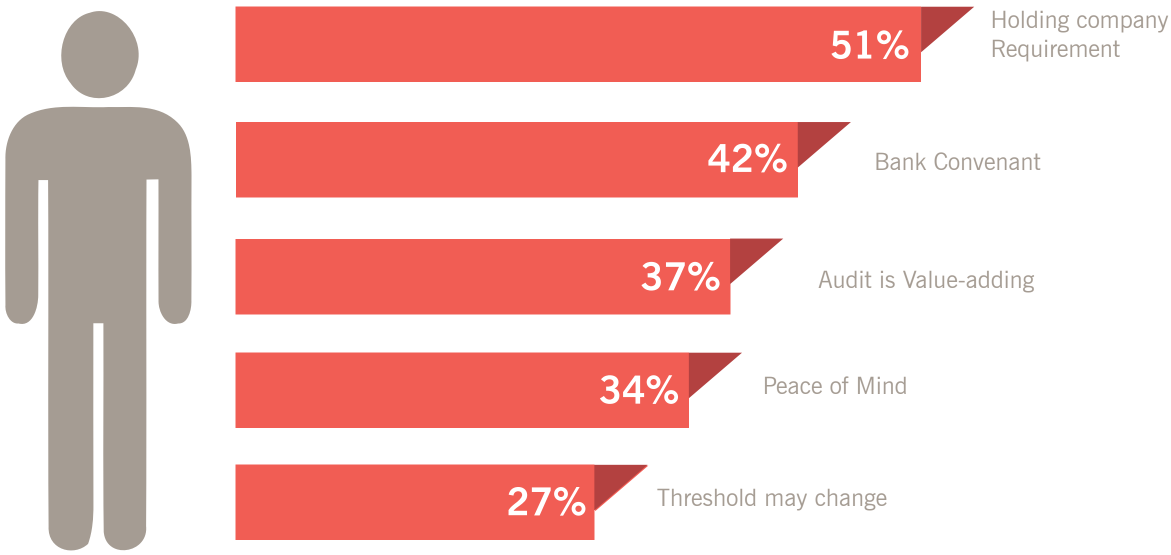
'If the company were to be exempted from audit, for example as a result of regulatory change, would you still prefer the financial statements of the company to be subjected to an external audit?'

The responses were overwhelmingly positive. Regardless of size, a vast majority of respondents indicated that they still prefer to have the financial statements of their companies subject to an external audit even if there is an exemption.

However, we can see the audit profession still has work to do to promote the value of an audit if we delve into the most common reasons why respondents would want an audit even if they were exempted. Most answers were based on compliance rather than value. Top ranked was holding company requirements (51%), followed by bank covenant obligation (42%). Only 37% wanted an audit because they believe it is value-adding, and 34% because getting an audit gives them a peace of mind.

Respondents from larger companies had a relatively greater appreciation of the value an external audit can deliver, with 45% indicating that they would still like an audit done because it is value-adding (compared to the average of 37%). Respondents from companies currently audited by a big-four accounting firm are also relatively more appreciative of the value of audit compared to those from companies currently audited by a non-big-four firm (40% vs. 28%).

Common reasons for wanting an audit.



[Table 10]

Survey question: 'Why would you prefer the financial statements to be subject to an external audit despite the exemption? (Select all that apply) [% of respondents that selected each survey option]'

When asked to elaborate on the ways an independent external audit is value-adding, a few common themes emerged. The survey respondents viewed an audit as critical to lending credibility to the financial reporting (to facilitate access to finance, for instance); keep management in check; is a good source of global and industry best-practices including with respect to internal controls; and in relation to financial reporting, auditors are trusted advisors to companies on upcoming reporting standards changes.

Selected free-text responses from survey respondents have been listed below.

- Instil confidence in the integrity of the reported financial statements… for the stakeholders including bank, customers, suppliers.
- (With an independent external audit) management is less likely to manipulate or inflate balances.
- Audit acts as a deterrent to fraud, a stimulus to openness and transparency and increase reliability of financial reporting.
- It ensures that we are ready for growth, and the shareholders can be assured that their monies are not misused.
- Keeps the finance team on their toes!
- Management can leverage on the global/industry expertise of the external auditors and learn about best practices. Auditors can also assist in other consultancy/advisory needs that may arise.
- Audited financial statements are needed to enter into a tender. May need audit report for future expansion/investment, governmental applications too.
- Many companies rely on their financials to prepare tax filings, which would otherwise be incorrect (if an audit is not conducted), thereby resulting in tax penalties.
- Management values auditors' independent check/review of the accounting policies and the adequacy of key internal controls.
- An audit highlights controls weakness… recommendations from external auditors may help improve the Company's process; and provide best in class perspectives.
- Auditors are at the forefront of accounting standards changes and play a pivotal role in assisting preparers anticipate and prepare for those changes.
- Auditors offer detailed checks of transactions against the correct interpretation of accounting standards and regulatory requirements… help ensure compliance with ever-changing accounting standards.

[Certain of the extracted comments from survey respondents have been paraphrased or combined with others to provide a better flow of the common views shared.]

The comments suggest that the audit profession needs to keep working to convince some business segments that an audit provides value beyond compliance, especially the small-medium companies. The survey results signal ways to do this. Some preparers, in their free-text comments, have highlighted the specific value-adding elements that they most appreciate from the audit. Audit teams could strive to deliver such services, which include, providing recommendations on internal controls improvement, other best-practices sharing and timely alerts on financial reporting developments.

CONCLUSION AND RECOMMENDATIONS

The pace of change in financial reporting standards and their complexity are big challenges, but also inevitable and long-term ones. The key is change management. To be able to adapt, plan ahead and seek the right support.

Overcoming these challenges requires a collaborative approach. The task ahead is, in the words of one survey respondent, not to 'judge and assess' companies and their accountants, but to advise and work with them to strengthen the quality of their financial processes.

As some of the roundtable participants reflected, most of them started from the same point – from the same universities and professional bodies, and they often started their career together in an accounting firm. While some stayed behind to become audit managers and partners; others branched out into different career paths, a significant number becoming financial controllers and CFOs charged with the responsibility of preparing financial reports.

Regardless of their career choices, they are all qualified accountants. They share a common goal, which is to improve the financial reporting process for the betterment of the overall business environment. And importantly, the goal is also to make the reporting process less strenuous and more satisfying in order to alleviate the talent issues faced by both the accounting and auditing professions.

While the legal responsibilities are clear and distinct, the relationship between companies and their auditors must be collaborative. Yet there is a need to redress the balance so that companies take more ownership and so enable auditors to provide more value through the audit process.

There is no silver bullet to the challenges faced by the profession in Singapore. While this report does not attempt to suggest all the solutions, it hopes to set the scene for continuing and more in-depth debate on what further concrete steps need to be taken.

As a start, the key recommendations collected from the survey respondents and focus group participants are recapped below.

CLARIFYING RESPONSIBILITIES

1. Professional bodies, external auditors, regulators and other parties in the financial reporting value chain need to educate and create more awareness about the respective roles of an independent external auditor, the preparers, board directors and senior management in the financial reporting process, to inculcate the right perception and attitude.

2. Top management need to recognise the importance of having qualified professionals within their finance functions, and the need to support their continual training. Accountants can then envision themselves as skilled professionals who produce quality financial reports in the companies, and not merely individuals who act as the liaisons with external auditors.

DEALING WITH CHANGE AND COMPLEXITY

3. To address the challenge of excessive reporting and boilerplate statements, companies should take ownership of their financial statements and accounting judgements and ensure that financial reporting is reflective of the companies' business activities and therefore truly relevant to users. Monitoring measures targeted at both preparers and external auditors should also have a focus on identifying and flagging up over-reporting so as to send out the right signal.

4. To support this, the profession, which is at the forefront of developments, should explain to companies about how the reporting principles and changes to them are expected to result in a better reflection of business performance and position. This should be part of the finance awareness mission. Updates on reporting standards for preparers and management/board directors should emphasise how companies can apply the standards in a way that is most relevant to the company and its investors.

5. Similarly, preparers need to anticipate the upcoming changes to the standards and plan ahead to identify information needs early, which will ensure that the necessary process and systems changes can be in place on a timely basis. The independent external auditors and professional bodies should play an active role in alerting companies to developments in the standards, and share international and industrial best practices.

6. There is a need for the region to provide more feedback to the international standard setting body, especially if there are aspects of proposed IFRS that may be incompatible with the local environment or have questionable 'realism'. The local and regional accounting community should collectively strive to exercise greater influence over the future changes to the IFRS for SMEs with an aim to materially reduce the reporting burdens of small companies.

DEVELOPING CAPACITY AND CAPABILITY

7. There should be more financial awareness workshops that provide customised and targeted trainings for board directors and senior management. Directors and senior management should also be committed to keep themselves abreast of financial reporting developments to the degree necessary as relying fully on the finance team's representation does not relieve them from their legal obligations.

8. The government and relevant authorities could also raise awareness of productivity and capability incentives available to both companies and individuals, including the Productivity and Innovation Credit and Course Fees Relief schemes.

VALUE OF AUDIT

9. The audit profession needs to keep working to convince some business segments, especially the small, medium-sized companies, that an audit provides value beyond compliance. The survey respondents highlighted specific value-adding elements they most appreciate from an audit, including recommendations on internal controls improvement, other best-practices sharing and timely alerts on financial reporting developments.

The survey results and focus group discussion clearly show that companies need to take more ownership of their financial reporting. This is all the more urgent if they are to meet the increasing calls to provide clearer and relevant financial information to investors and even a wider range of stakeholders. In this report, most of the possible measures and solutions to help companies achieve this involve qualified accountants, whether working as company accountants, auditors or as a unified profession.

ACCA Singapore
435 Orchard Road
#15-04/05 Wisma Atria
Singapore 238877
+65 6734 8110
www.singapore.accaglobal.com

Accounting and Corporate Regulatory Authority
10 Anson Road
#05-01/15 International Plaza
Singapore 079903
+65 6248 6028
www.acra.gov.sg