ACRA
ACCOUNTING AND CORPORATE REGULATORY AUTHORITY

RAISING THE BAR OF FINANCIAL REPORTING

Financial Reporting Surveillance Report 2024

ACRA is the regulator of companies incorporated in Singapore and administers the Companies Act in Singapore. Through the Financial Reporting Surveillance Programme, ACRA ascertains whether the annual financial statements of Singapore-incorporated companies are prepared in compliance with the prescribed accounting standards in Singapore.

These surveillance efforts help ensure that the financial information provided by companies is reliable, supporting shareholders and the public in making informed decisions. These efforts uphold the quality of financial reporting and maintain market integrity.

Scope/Disclaimer

When reading the findings set out in this report, the reader should bear in mind that ACRA has reached conclusions having regarded multiple factors in the actual circumstances, which are not fully illustrated in the case studies. Accordingly, these findings should not be read in isolation.

Published in March 2025

Abbreviations

ACRA	Accounting and Corporate Regulatory Authority
FRSP	Financial Reporting Surveillance Programme
FS	Annual Financial Statements
NC	Non-compliance with the prescribed accounting standards in Singapore

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A Decade in Review

A DECADE IN REVIEW – EXECUTIVE SUMMARY

Established in 2014, ACRA's FRSP has dedicated a decade to improving the quality of FS in Singapore. Our goal was not only to enhance the quality of financial reporting but also to foster the mindset that financial reporting responsibilities are the responsibilities of the directors and management, instead of one of relying heavily on auditors as observed in 2014. While improvement is still needed, directors and management now better understand their essential roles in the financial reporting ecosystem.

This chapter reflects on the FRSP's impact over the past ten years, highlighting key observations and common findings from our reviews. Statistics on the right show a summary of the FRSP's reviews, including the regulatory outcomes of such reviews for the past ten years.

194
FS reviews completed

76
Concluded with no findings

86
Concluded with advice to re-state comparatives or provide additional disclosures in future FS

13
Concluded with revisions and re-auditing of prior years FS

19
Concluded with issuance of warning letters and/or offers of composition to directors

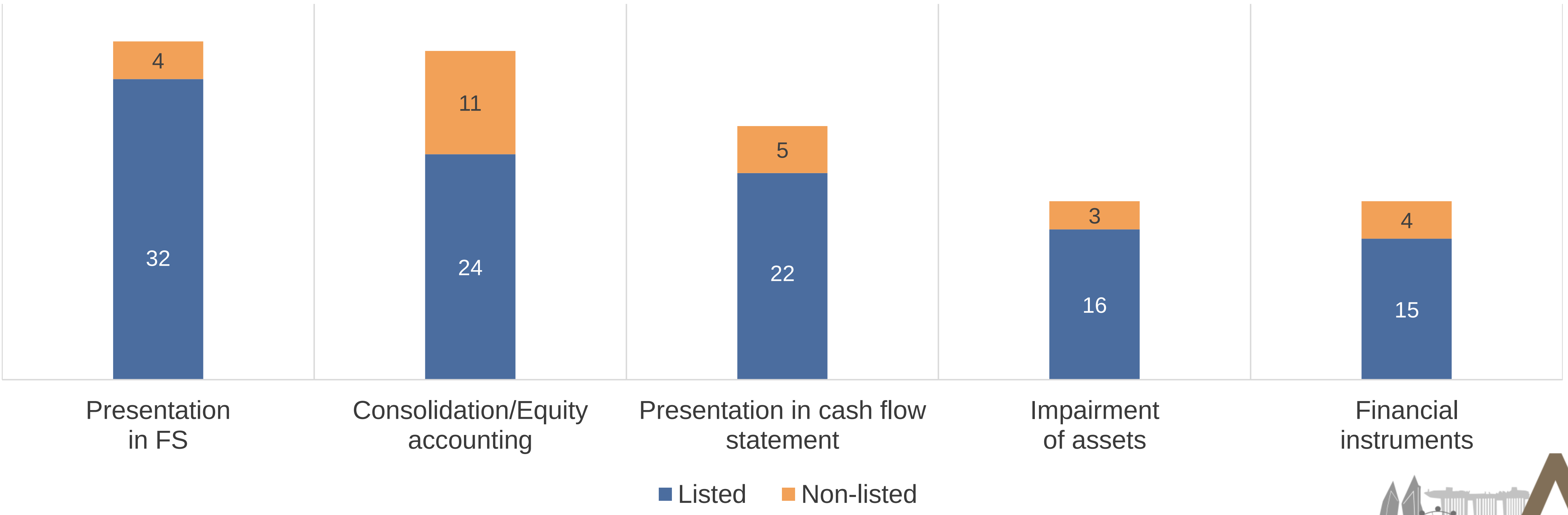
28 Directors received warning letters

12 Directors served with offers of composition

A DECADE IN REVIEW – COMMON FINDINGS

During the past decade, NCs have been identified across different accounting areas. However, certain areas appear to be more susceptible to misstatements. The diagram below shows a compilation of the top five areas with the highest incidence of NCs. Each area is followed by a summary of common findings provided in the subsequent pages, offering detailed insights into recurring issues in financial reporting.

Total NCs (No. of occurrence) in the top five accounting areas



A DECADE IN REVIEW – COMMON FINDINGS

Presentation in FS

Omission of material disclosures:

- Critical judgements and estimations uncertainties
- Liquidity and credit risks disclosures
- Restriction on access or use of assets
- Assets pledged as security for borrowings
- Nature of significant transactions/balances
- Summarised financial information for subsidiaries with material Non-Controlling Interest (NCI)

Classification errors:

- Administrative expenses as cost of sales or vice versa
- Financial assets as non-financial assets or vice versa

Consolidation/Equity accounting

Inappropriate assessment of influence and control:

- Companies with significant influence are not identified as associates or companies under control are not classified as subsidiaries

Deficiencies in business combination accounting:

- Failure to measure identifiable assets acquired and liabilities assumed at their acquisition-date fair values
- Fair value of purchase consideration incorrectly determined at acquisition date
- Failure to separately recognise identifiable intangible assets from goodwill

A DECADE IN REVIEW – COMMON FINDINGS

Presentation in cash flow statement

Inclusion of non-cash items:

- Non-cash transactions and unpaid cash flows are incorrectly reported as cash movements in investing or financing activities

Showing cash flows as net amounts when it is required to be reported in gross

Cash flows are classified in the wrong categories

- Foreign currency exchange impact is included into operating activities instead of being properly allocated to investing or financing activities

Impairment of assets

Failure to assess for impairment

- No impairment assessment despite presence of impairment indicators

Mistakes in calculating recoverable amount

- Inappropriate discount rates and assumptions
- Inaccurate and unrealistic cash flow projections, such as extending cash flows for assets with finite lives into perpetuity

Insufficient disclosures in FS

- Not disclosing key assumptions used
- Lack of sensitivity analysis disclosures
- Not explaining the reasons for recognising or reversing impairment loss

A DECADE IN REVIEW – COMMON FINDINGS

Financial instruments

Recognition and measurement of complex financial instruments

- Failure to identify embedded derivatives, within complex financial instruments, and to account for them separately
- Incorrect accounting for compound financial instruments (those with both liability and equity components)

Inadequate Expected Credit Loss (ECL) assessment or provision for financial assets, despite indicators of increased credit risk

We aim to enhance awareness of recurring issues in financial reporting. By highlighting the top five areas, we seek to heighten management's and directors' vigilance in these areas. While not exhaustive, the common findings provided will also serve as essential checkpoints for management and directors during the FS preparation and review process.

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Overview and Case Studies

EXECUTIVE SUMMARY

This chapter summarises the key findings from ACRA's FRSP conducted from 1 April 2022 to 31 March 2024. It provides our observations on the quality of financial reporting by companies in Singapore.

42
FS reviews completed

59
Material NCs observed

32
Statements recorded

12
Concluded with no findings

20
Concluded with advice to re-state comparatives or provide additional disclosures in future FS

2
Concluded with revisions and re-auditing of prior years FS

8
Concluded with issuance of warning letters and/or offers of composition to directors

- **8** Directors received warning letters
- **11** Directors served with offers of composition

NATURE OF MATERIAL NON-COMPLIANCES

Between 2022 and 2024, we completed the review of 42 FS, representing a 27% increase from the previous period (2020 to 2022). The average number of NCs per case has doubled from 0.70 to 1.40.

While recognition and measurement NCs remain the most common, their proportion has decreased from 61% to 49% of total NCs. Conversely, disclosure-related NCs have significantly increased from 13% to 29%, indicating an emerging area of concern. Notably, disclosure and presentation issues are generally less complex and can be more readily addressed with due diligence. The substantial increase in NCs in these areas warrants closer scrutiny by management and directors.

The impact of most of the material NCs on the Group's consolidated pre-tax profit or loss and/or net assets was generally less than 100%, with approximately 11% of the cases having adjustments exceeding 100%.

Nature of material NCs	**Apr 2020 – Mar 2022**	**Apr 2022 – Mar 2024**
	Number and % of NCs	Number and % of NCs
Recognition and measurement	14 (61%)	29 (49%)
Presentation	6 (26%)	13 (22%)
Disclosures	3 (13%)	17 (29%)
Total number of NCs	23 (100%)	59 (100%)

ANALYSIS OF NON-COMPLIANCES BY REVENUE SIZE

We further analyse the distribution of material NCs across companies based on revenue, categorising them into two groups: those with revenues below $100 million and those with revenues above this threshold.

Our analysis reveals a higher incidence of NCs among smaller companies, defined as those with revenues below $100 million, compared to larger companies. In the current reporting period, smaller companies averaged 1.59 NCs per company, whereas larger companies averaged 1.07 NCs per company. This disparity is not unexpected, as smaller companies often lack adequate resources in their financial reporting functions, both in terms of capacity and capabilities, which can lead to increased compliance challenges.

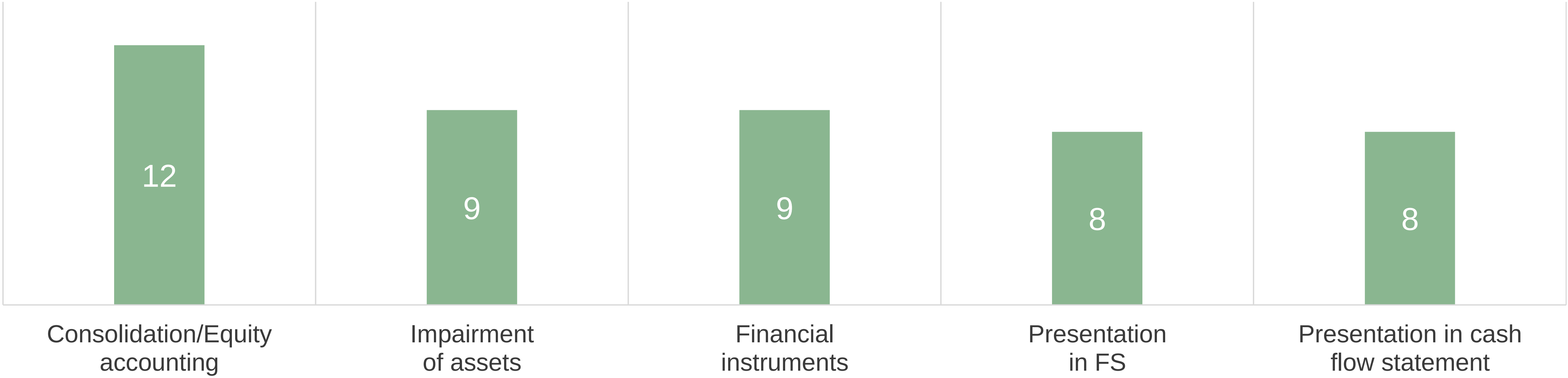
Overall, both groups of companies experienced an increase in the average number of NCs between the two periods shown below. To address these compliance challenges effectively, it is crucial to identify the common areas where NCs frequently occur. This will be explored in the following section.

Nature of material NCs	**Apr 2020 – Mar 2022**			**Apr 2022 – Mar 2024**		
	Less than $100 mil	More than $100 mil	Total	Less than $100 mil	More than $100 mil	Total
Total number of NCs	18	5	23	43	16	59
Number of companies	20	13	33	27	15	42
Average number of NCs per company	**0.90**	**0.38**	**0.70**	**1.59**	**1.07**	**1.40**

ACCOUNTING AREAS WITH NON-COMPLIANCES

On Page 6, we have identified the top five accounting areas susceptible to misstatements over the past decade. Reviews completed between 2022 and 2024 corroborate that these areas remain prone to NCs, as illustrated in the bar chart below. The following pages will explore the top three areas of NCs, using case studies to highlight common issues and practical tips for directors on reviewing FS. The cases have been anonymised and modified to protect the identities of the companies.

Total NCs (No. of occurrence) between 2022 and 2024



CONSOLIDATION/EQUITY ACCOUNTING – OVERVIEW

Consolidation ensures that the FS of a parent company and its subsidiaries are presented as a single economic entity, while equity accounting recognises the investor's share of the investee's profits and losses. They are important concepts in financial reporting to give an accurate representation of the financial position and performance of the entire group. The correct application of these concepts also influences key financial metrics and ratios, crucial for stakeholders' decision-making. Errors in these areas can lead to material misstatements, affecting market's assessment of the group's financial health.

Areas	Learning points	Red flags / indicators for scrutiny
Control assessment	• Consider all aspects of control in SFRS(I) 10 *Consolidated Financial Statements*, including power, returns, and link between power and returns • Changes in operational circumstances alone may not necessarily result in loss of control • Evaluate management's efforts to maintain or regain control in challenging situations • Ensure that control assessments are regularly reviewed, especially when there are changes in ownership/group structure	• Claims of loss of control, especially when ownership remains unchanged (Case 1A) • Complex group structures or special purpose entities • Inconsistencies between legal ownership and operational control (Case 1A)
Consistent accounting policies	• Ensure that consistent accounting policies are applied across the group for similar transactions, regardless of geographical location/local practices	• Inconsistent accounting for the same class of assets, such as depreciation and fair value gains for the same class of properties (Case 1B)
Disclosure and transparency	• Where there are significant judgements made in determining control, ensure that the FS include clear and comprehensive disclosures about these significant judgements	• Changes in control or group structure (Case 1A)

CONSOLIDATION/EQUITY ACCOUNTING – CASE 1A

Fact Patterns

In FY20X1, the Group acquired a 70% shareholding in Entity X, a foreign company, from Shareholder Y, who retained the remaining 30%. Consequently, Entity X became a non-wholly owned subsidiary of the Group.

To comply with local legal and tax requirements, the Group granted a power of attorney (POA) to Shareholder Y and appointed him as the executive director of Entity X. This arrangement empowered Shareholder Y to manage Entity X's day-to-day operations, including executing asset transactions, loan agreements, and commercial contracts. Entity X relied on the Group for short-term operating cash flow support.

During FY20X5, Shareholder Y requested additional funding, citing Entity X's tight cash flows and financial difficulties. The Group made repeated requests for Entity X's management accounts and FS but received no response. The Group decided to withhold further funding to Entity X. Subsequently, Shareholder Y became unresponsive to all communication attempts. As a result, the Group **determined that it had lost control over Entity X**[1] despite retaining 70% ownership and **deconsolidated Entity X as a subsidiary**[2]. **A loss on derecognition was recognised in FY20X5**.

Upon reviewing the FY20X5 consolidated FS and correspondences with the Group, the following observations were made:

- The POA had a one-year expiry duration, and the Group retained power to revoke it at any time.
- The Group did not attempt to take any further action after losing contact with Shareholder Y.

Accounting Standards requirement:

1 SFRS(I) 10 Paragraph 6 states that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

2 SFRS(I) 10 Paragraph 20 states that consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee.

CONSOLIDATION/EQUITY ACCOUNTING – CASE 1A

Board of Directors explained that:

- Shareholder Y became uncontactable despite numerous attempts, resulting in the Group's inability to access Entity X's management accounts or financial records.
- Entity X was experiencing financial difficulties, and the Group had ceased providing funding. Without the Group's financial support, Entity X faced potential bankruptcy and liquidation, which would likely result in court-appointed liquidation and consequent loss of control.
- Furthermore, given the lack of management representation in the foreign-based company, the Group perceived no benefit in maintaining control over Entity X.

ACRA concluded that there was a NC because:

- The Group continued to have control over the subsidiary and hence, should not deconsolidate the subsidiary.
- No significant change occurred between the acquisition date and FY20X5 to justify the loss of control as claimed by the Group, apart from the loss of communication and cessation of funding.
- The Group's power to revoke the POA at any time suggested ongoing control from the acquisition date.
- The Group’s 70% equity stake remained unchanged in FY20X5, indicating a continued ability to direct Entity X's activities and affect returns from the investment.

CONSOLIDATION/EQUITY ACCOUNTING – CASE 1B

Fact Patterns

The Group's principal activities related to property development and real estate agency services, with investment properties (IP) constituting a significant portion of the Group's total assets.

Upon reviewing the FY20X1 consolidated FS, the following observation was made:

- The Group recognised depreciation expense on IP, suggesting the use of the cost model. However, the Group also recorded a gain on revaluation of IP, which indicates the application of the fair value model. This discrepancy raises questions about the Group's consistent application of accounting policies[1,2] for IP[3] and suggests an inconsistency in the measurement of IP.

Board of Directors explained that:

The Group's subsidiaries, operating across multiple countries, adopted different accounting policies for their IP. The choice between cost and fair value methods was determined by local finance teams and common accounting practices in each jurisdiction.

ACRA concluded that there was a NC because:

- The Group should apply a uniform accounting policy for its IP across all subsidiaries in its consolidated FS, as required by SFRS(I). Whatever model it adopts, it should be consistent throughout the Group.
- In cases where subsidiaries use different accounting policies in their local FS, appropriate adjustments should be made during the consolidation process to ensure uniformity at the group level. Applying two different accounting policies for the same type of transactions across the group could lead to misrepresentation of the Group's consolidated FS.

Accounting Standards requirement:

1 SFRS(I) 10 Paragraph 19 states that a parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

2 SFRS(I) 10 Paragraph B87 states that if a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

3 SFRS(I) 1-40 *Investment Property* Paragraph 30 requires an entity to choose either the fair value model or cost model as its accounting policy and apply that policy to all of its investment properties.

IMPAIRMENT OF ASSETS – OVERVIEW

Impairment assessment plays a critical role in financial reporting by ensuring assets are not carried at more than their recoverable amount. Proper application of *SFRS(I) 1-36 / FRS 36 Impairment of Assets* prevents inflated asset values, provides timely recognition of economic value declines, and offers insights into asset performance.

Areas	Learning points	Red flags / indicators for scrutiny
Key inputs and assumptions used in value in use (VIU) calculations	• Ensure consistency of assumptions across different parts of the annual report and between reporting periods • Consider impact of sustainability reporting and connectivity with financial reporting	• Discrepancies between management commentary and FS (Case 2A) • Inconsistency in assumptions used in VIU calculations and other forward-looking information provided by management
Discount rates and sensitivity analysis	• Ensure appropriate risk adjustment in discount rates, especially for new sectors or when macroeconomic environment changes	• Unchanged discount rates despite increased risks or uncertainties (Case 2A) • Marginal changes in discount rates leading to significant impairment (Case 2A)
Expertise in valuation	• Consider engaging appropriate experts for complex valuations or specialised assets	• Change from external to internal valuations for significant assets (Case 2A) • Lack of specialised expertise for valuing complex or industry-specific assets
Disclosures	• Disclose events and circumstances leading to impairment or reversal of impairment • Ensure sufficient disclosures on key assumptions and associated sensitivity analysis	• Significant impairment or impairment reversal without clear explanation (Case 2B) • Lack of disclosure on key assumptions and associated sensitivity analysis (Case 2A)

IMPAIRMENT OF ASSETS – CASE 2A

Fact Patterns

The Group acquired a forestry company in FY20X1, recognising goodwill that constituted 20% of the Group's total assets. **The acquired company had reported losses for the past five years and was in a capital deficiency position on the acquisition date.** It also held a 15-year forestry concession license for untapped land with potential to generate significant cash inflows and lower carbon emissions.

The Group did not have prior experience in the forestry sector. On acquisition date, the Group engaged an independent expert (1st expert) to value the standing trees and the forestry license. **Post-acquisition, to reduce costs, the acquired company's internal forestry management team took over all cash flow projections**, including annual goodwill impairment assessment. **Despite continued losses and unmet planting targets**, there was no impairment to the goodwill in FY20X1 and FY20X2, as the internally computed recoverable amount exceeded the carrying amount of the forestry sector.

Upon reviewing the Group's FY20X2 internal VIU calculation, the following observations were made:

- Insufficient consideration of risks and uncertainties in the cash flow projections. Assumptions in the internal VIU calculation were more aggressive than those used by the 1st expert (e.g., significantly higher scale of production and production yield). Despite this, the Group used the same discount rate by the 1st expert. A higher discount rate would have resulted in a lower recoverable amount.
- A 0.8% rise in the discount rate would have caused an impairment loss, reducing the Group's profit before tax (PBT) by about 26%, yet no sensitivity analysis for the discount rate was disclosed.
- The management commentary stated that the concession covered 500,000 hectares, with only 10,000 hectares planted, showing a 98% expansion potential. However, in the VIU calculation, only 200,000 hectares were stated as plantable, with the remaining (60%) deemed unsuitable. This critical assumption about plantable areas was not disclosed in the FS.

IMPAIRMENT OF ASSETS – CASE 2A

Board of Directors explained that:

- While the Group lacked experience in the forestry sector, the forestry management team had the expertise.
- FY20X1 and FY20X2 planting targets were not met due to excessive rainfall. For the FY20X2 VIU calculation, the Group incorporated higher production yields based on an expert (2nd expert) advice that adding fertilisers would enhance yields. These projected higher yields were within the range in academic reports and endorsed by another independent expert (3rd expert) engaged by the Group.
- No disclosure on the plantable area in the FS because it was not explicitly required by the accounting standards. Sensitivity analysis of the discount rate was not disclosed, as no impairment was recorded.

ACRA concluded that there was a NC because:

- The assumptions used in the VIU calculation were not reasonable and supportable[1], and did not reflect the associated risks and uncertainties. The academic reports were irrelevant due to different soil conditions. Further, the 3rd expert consulted did not consider SFRS(I) requirements, unlike the 1st expert engaged for the acquisition date valuation in FY20X1.
- Given the marginal headroom, where a 0.8% increase in discount rate would result in material impairment and reduce the Group's PBT by 26%, a sensitivity analysis[2] for the discount rate should be disclosed.
- The plantable area was a critical assumption[3] in the VIU calculation. Omitting this information could misrepresent the untapped land potential, as the land area cited in management's commentary included a significant portion (60%) of unplantable land.

Accounting Standards requirement:

1 SFRS(I) 1-36 Paragraph 33 requires VIU cash flow projections to be based on reasonable and supportable assumptions.

2 SFRS(I) 1-1 *Presentation of Financial Statements* Paragraph 125 requires disclosure of assumptions about the future and major sources of estimation uncertainty that have a significant risk of causing material adjustments to asset and liability carrying amounts in the next year. Paragraph 129 requires an entity to disclose the sensitivity of carrying amounts to underlying assumptions and estimates, including reasons for sensitivity.

3 SFRS(I) 1-36 Paragraph 134(d) states that if the recoverable amount is based on VIU, an entity is required to disclose:
- each key assumption used in the VIU, how the value for each assumption is determined,
- the period over which the cash flows were projected and if a period longer than five years is used, an explanation of why that longer period is justified,
- the growth rate used to extrapolate projections beyond the period covered by most recent budgets/forecasts, and discount rate.

IMPAIRMENT OF ASSETS – CASE 2B

Fact Patterns

The Group had an investment in a joint venture (JV). This investment was fully impaired in FY20X1 due to years of continued losses by the JV and lack of projects. However, in FY20X4, the Group recorded a significant gain on reversal of impairment loss of its investment in this JV, which amounted to 93% of the PBT.

Upon reviewing the Group's FY20X4 consolidated FS, the following observations were made:

- The Group only disclosed that the reversal was due to higher recoverable amount computed by an independent valuer. It did not disclose the events and circumstances that led to the higher recoverable amount, which resulted in reversal of impairment loss[1].
- The Group omitted the disclosure of key assumptions used in the computation of the recoverable amount[2].

Board of Directors explained that:

- In FY20X4, the JV successfully secured several contracts which led to the management's view that the JV's future business performance and outlook had improved. Hence, the management revised its projected cash flows where the recoverable amount increased and led to the reversal of impairment loss in FY20X4.
- The Group had disclosed that the VIU calculation was based on the management financial budget approved by the Board, covering a 5-year period.

ACRA concluded that there was a NC because:

- The Group should disclose the events and circumstances that led to the reversal of impairment, and the significant key assumptions and estimates used in the projected cash flows that supported the reversal of impairment in FY20X4. These disclosures are necessary to enable users of the FS to understand the reasons for the reversal and the basis for management's decision.

Accounting Standards requirement:

1 SFRS(I) 1-36 Paragraph 130 requires an entity to disclose the events and circumstances that led to the recognition or reversal of the impairment loss.

2 SFRS(I) 1-1 Paragraph 125 requires disclosure of assumptions about the future and major sources of estimation uncertainty that have a significant risk of causing material adjustments to asset and liability carrying amounts in the next year. Paragraph 129 requires an entity to disclose the sensitivity of carrying amounts to underlying assumptions and estimates, including reasons for sensitivity.

FINANCIAL INSTRUMENTS – OVERVIEW

Financial instruments can comprise a significant portion of a company's assets and liabilities. Proper accounting for financial instruments provides clarity on the value and risk profile of assets and liabilities.

Areas	Learning points	Red flags / indicators for scrutiny
ECL assessment	• ECL measurement requires consideration of probability-weighted scenarios, even when the probability of a credit loss scenario is low • At each reporting date, assess whether there is significant increase in credit risk (SICR) since initial recognition • Absence of recorded ECL does not negate the need for disclosures • Regularly update ECL models for changes in economic conditions and forward-looking information	• Biased assumptions in ECL calculations • Lack of multiple scenarios in ECL assessment (Case 3A) • Consistent zero/minimal ECL across reporting periods without adequate justification • Debtor in financial difficulties, such as loss-making status, etc. (Case 3C) • Long-overdue receivables (Case 3C) • Lack of consideration of macroeconomic factors in ECL models
Fair Value (FV) measurement	• Recent transacted prices, especially within the same financial year, are observable inputs which may be reflective of FV • Deviations from observable inputs should be carefully scrutinised and justified	• Valuation results falling outside the observable range of recent transactions (Case 3B) • Use of unobservable inputs (Level 3) when observable inputs are available
Disclosure requirements	• Significant judgements and assumptions in ECL assessment should be disclosed, even when no ECL is recorded	• Lack of disclosure on changes in ECL calculation basis (e.g., from 12-month to lifetime) (Case 3A) • Insufficient disclosure of significant exposures and their assessment

FINANCIAL INSTRUMENTS – CASE 3A

Fact Patterns

The Group, operating in the oil and gas industry, had set long-term net zero targets. Its associate, an upstream renewable energy company, relied on loans from the Group and banks for a renewable energy project. The Group served as a financial guarantor for the associate's bank loans.

The renewable energy project, being nature-dependent, involved inherent risks and uncertainties. Therefore, the associate planned a **three-phase development approach**. Initial exploration results in FY20X1 were promising, leading to the commencement of phase one development at the start of FY20X2.

The **recoverability** of the loans provided by the Group and the potential call on the financial guarantee were **contingent on the overall success of all three phases**. These loans amounted to 10% and 15% of the Group's FY20X2 and FY20X3 total assets respectively. Despite the significant exposure, the Group recorded zero ECL for these loans. In the FY20X2 and FY20X3 FS, the Group disclosed that these loans were secured by other assets owned by the associate but **there were no other disclosures relating to the Group's ECL assessment on these loans.**

Upon our correspondences with the Group, the following observations were made:

- For FY20X3, the Group computed ECL for the loans provided to the associate on a lifetime basis (changed from a 12-month basis in FY20X2) due to the protracted phase one development, which it identified as indicating a SICR.
- The ECL assessment was based on the projected cash flows from all three development phases, assuming the success of phase one and progression to subsequent phases.
- The associate was negotiating loan restructuring with its financiers.

FINANCIAL INSTRUMENTS – CASE 3A

Board of Directors explained that:

- No ECL was recorded in FY20X3 despite the SICR, as the revised downward cash flow projections from all three development phases indicated no impairment.
- The Group's exposures from the loans were secured by the associate's real estate properties. Although no valuation was done on these properties, management was confident of these properties' values based on their business acumen.
- No disclosures were necessary given that no ECL was recorded.

ACRA concluded that there was a NC because:

- The Group's single-scenario approach assuming completion of all three phases was biased. Various scenarios considering all possible outcomes[1] with assigned probabilities should have been considered, given the risks and uncertainties. In this case, a scenario of phase one development failing should have been considered, given its protracted development which the Group identified as a SICR.
- Although real estate collaterals might mitigate the credit risk, the Group should also have determined the valuation of these real estate properties for consideration in the ECL calculations.
- The Group should have disclosed[2] that the ECL was computed based on a lifetime basis, including the estimation techniques and forward-looking assumptions used. In addition, where the recoverable amount was sensitive to certain key inputs, the Group should have disclosed the sensitivity of these key inputs.

<u>Accounting Standards requirement:</u>

[1] SFRS(I) 9 *Financial Instruments* Paragraphs 5.5.17 and 5.5.18 requires ECL to be calculated in a way that reflects (a) an unbiased and probability-weighted amount considering all possible outcomes, (b) the time value of money and (c) reasonable and supportable information. The entity shall consider the risk or probability that a credit loss occurs, even if the likelihood of credit loss occurring is very low.

[2] SFRS(I) 7 *Financial Instruments: Disclosures* Paragraph 35G sets out the requirement to disclose the basis of inputs, assumptions and estimation techniques used in the measurement of ECL and how forward-looking information has been incorporated when determining ECL. SFRS(I) 1-1 Paragraph 129 requires an entity to disclose the sensitivity of carrying amounts to underlying assumptions and estimates, including reasons for sensitivity.

FINANCIAL INSTRUMENTS – CASE 3B

Fact Patterns

The Group acquired a 100% equity interest in Entity X in FY20X1. The FV of the purchase consideration comprised both cash and non-cash consideration. The non-cash consideration, consisting of the Group's own shares, was a contingent consideration dependent on the fulfillment of earn-out conditions. The Group was subsequently delisted in 20X1 at a price of $0.95 per share.

Following the delisting, three private equity transactions (Transactions) occurred, with investment in the Group priced at $1.70 per share. For the acquisition, the Group engaged an independent valuer who, using the Guideline Public Company (GPC) method, determined the share price to be $0.79 per share at the acquisition date.

Upon reviewing the FY20X1 consolidated FS and correspondences with the Group, the following observations were made:

- The valuer's determined share price of $0.79 per share fell outside the observable range[1] of $0.95 to $1.70, which was based on the Group's market transactions during the year.
- SFRS(I) 13 defines FV as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The market transaction price was reflective of FV as it was a price between the parties in an orderly transaction (not forced transactions such as forced liquidation or distress sale).

Accounting Standards requirement:

[1] SFRS(I) 13 *Fair Value Measurement* Paragraph 36 states that an entity shall maximise the use of relevant observable inputs and minimise the use of unobservable inputs to meet the objective of a fair value measurement, which is to estimate the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants at the measurement date under current market conditions.

FINANCIAL INSTRUMENTS – CASE 3B

Board of Directors explained that:

- The $1.70 per share price in the Transactions was not considered representative due to synergistic benefits between the Group and the investors. These benefits, which included board seat entitlement and shareholder reserved matters, resulted in price premiums that were not applicable to general market participants (MPs).
- The investors were not deemed MPs, thus the $1.70 per share price was not representative of what a MP would pay for the Group's shares.

ACRA concluded that there was a NC because:

- The transactions were carried out by entities meeting the four characteristics of MPs as defined in SFRS(I) 13. The synergistic benefits associated with the transactions were not unique and were considered commonly available to other MPs. Therefore, the prices paid were reflective of FV.
- The recent transacted prices of $1.70 were observable inputs that should not have been dismissed outright. Instead, the Group should have considered whether the share price warranted an adjustment in their valuation process.

FINANCIAL INSTRUMENTS – CASE 3C

Fact Patterns

The Group had a long-overdue receivable from a debtor that was more than 300 days overdue. This receivable constituted 5.8% of the Group's total assets for FY20X1 and there was no ECL[1] provided despite it being long-overdue. The auditor issued a qualified opinion regarding the recoverability of trade and other receivables. Management assessed that the debtor had sufficient cash balance to pay off the receivable based on the debtor's FY20X1 FS and hence, no ECL was provided for this debtor.

Upon reviewing the FY20X1 FS and correspondences with the Group, the following observations were made:

- Most of the debtor's cash was restricted cash, with liquid cash less than 1% of the receivable owed. Hence, it was insufficient to settle the balances.
- The debtor was loss-making, with operating cash outflows, and was in a net liability position. These factors were objective indicators of a SICR[2].
- If the Group had recorded an ECL on the full receivable, its losses before tax would have increased by more than 300%, resulting in a net liability position.

Board of Directors explained that:

The debtor proposed a scheme of arrangement, and the Group was in discussion with the debtor's ultimate shareholder to recover the receivable through the assets held by the ultimate shareholder.

ACRA concluded that there was a NC because:

- The third party's loss-making status, net liability position, negative cash flows and application for a scheme of arrangement clearly evidenced SICR, indicating difficulties in meeting debt obligations.
- In addition, there was also no legally binding agreement between the Group and the ultimate shareholder to repay the debt. The Group should have performed a detailed ECL assessment on this debtor.

Accounting Standards requirement:

1 SFRS(I) 9 Paragraph 5.5.1 requires an entity to recognise a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1(g), 4.2.1(c) or 4.2.1(d).

2 SFRS(I) 9 Paragraph 5.5.3 states that an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

03

AUDIT QUALIFICATIONS AND AVOIDABLE ERRORS

AUDIT QUALIFICATIONS

Annual financial statements provide a comprehensive overview of a company’s financial health to its stakeholders. These statements are crucial for potential investors deciding whether to invest in a company and for potential creditors assessing whether to extend credit. Management and directors rely on this information to evaluate performance, make informed business decisions, and demonstrate accountability for their stewardship of the company’s resources.

Therefore, the reliability and comparability of annual financial statements are paramount. A statutory audit serves this purpose by offering an independent and objective assessment of a company’s financial statements, ensuring their accuracy, completeness, and compliance with prescribed accounting standards and relevant laws and regulations.

If a set of financial statements receives a qualified audit opinion or disclaimer from statutory auditors (also known as modified audit reports), the shareholders may lack access to reliable and comparable financial information. A proliferation of modified audit reports would inevitably undermine the credibility of Singapore’s financial reporting ecosystem in the long term.

In the next few pages, we present an overview of the audit opinions received by listed companies from FY2021 to FY2023 and we specifically examine the modified audit reports issued for FY2023.

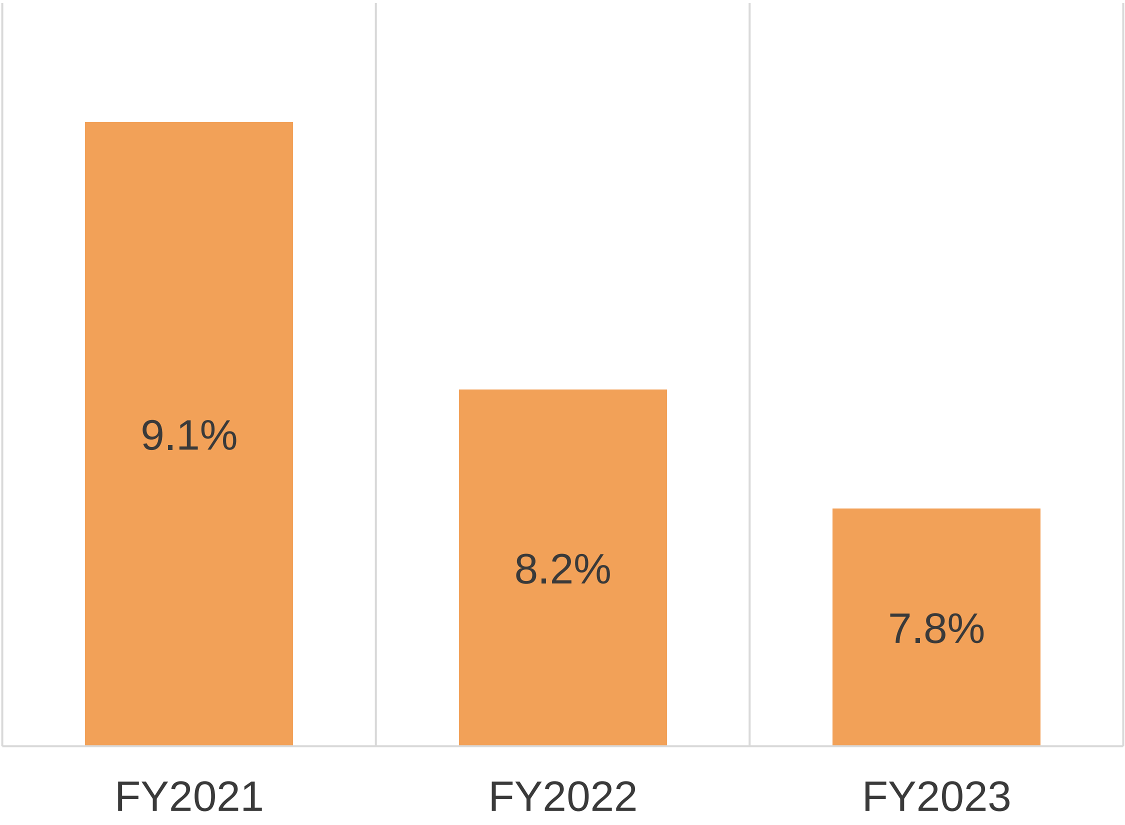
AUDIT QUALIFICATIONS – TRENDING

The bar chart illustrates the trends in audit opinions received by listed companies over a three-year period. The data indicates a downward trajectory in the percentage of companies receiving modified audit opinions, decreasing from 9.1% in FY2021 to 7.8% in FY2023, representing an overall reduction of 1.3% over the three-year period.

While this represents progress, it also indicates that there remains room for improvement in financial reporting practices across the ecosystem.

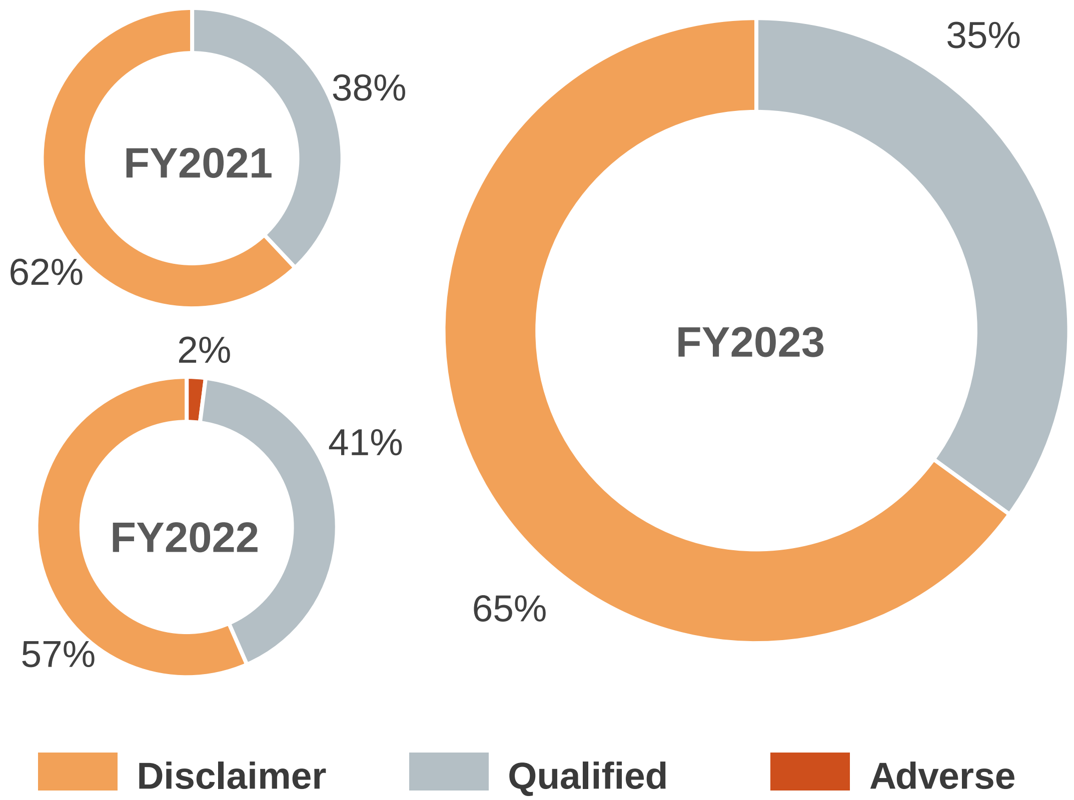
Companies currently receiving modified audit opinions should diligently address the underlying issues to enhance their future audit outcomes. Others should remain vigilant and committed to securing unqualified audit opinions for their financial statements.

% of listed companies that received modified audit opinions from FY2021 to FY2023



AUDIT QUALIFICATIONS – TRENDING

Analysis of modified audit opinions over 3 years



Conversely, it is notable that over half of the modified audit opinions between FY2021 and FY2023 were disclaimers. Although both disclaimers and qualified audit opinions are classified as modified audit opinions, their implications differ significantly. A disclaimer indicates material and pervasive issues that prevent the auditor from obtaining sufficient appropriate audit evidence on which to base the opinion, resulting in no assurance on the FS. In contrast, a qualified audit opinion highlights specific material misstatements or scope limitations that are not pervasive, hence, provides limited assurance on the rest of the FS.

Audit opinions significantly impact investor confidence and perceptions of management credibility. Disclaimers often lead to substantial investor distrust and may raise concerns about management's competence. Qualified opinions, while signalling specific areas needing improvement, typically do not lead to widespread loss of confidence and generally allow investors to rely on most of the financial information presented.

FY2023 AUDIT QUALIFICATIONS – OVERVIEW

We have analysed 474 listed companies' FY2023 FS that were issued by 31 December 2024. Out of these, 37 received modified audit opinions: 13 with qualified audit opinions and 24 with disclaimers. Notably, 8 companies received a modified audit opinion for the first time, while the rest were repeat recipients, with 12 companies that received modified opinions for four or more consecutive years. This trend indicates a persistent issue with addressing audit concerns.

Persistent modified audit opinions often stem from a combination of interrelated factors. Companies may struggle with ongoing internal control weaknesses which remain unaddressed due to resource constraints or outdated systems. These issues can be exacerbated by continuous financial difficulties which further limit the company's ability to invest in making the necessary improvements. Management resistance to implementing auditor recommendations or addressing identified issues compounds the problem, creating a cycle of unresolved audit concerns.

474
Listed FS

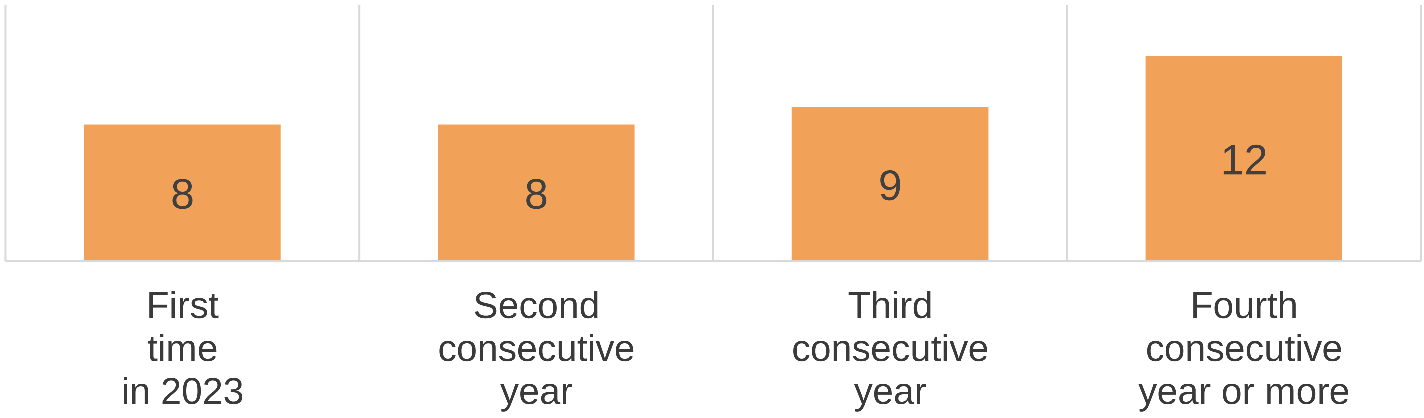
437
Unmodified audit opinion

37
Modified audit opinion

13
Qualified opinion

24
Disclaimer

37 listed companies with modified audit opinions for FY2023 FS: Frequency of modification

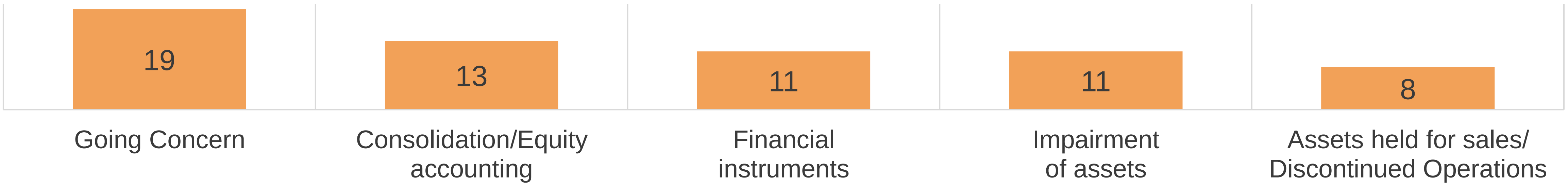


FY2023 AUDIT QUALIFICATIONS – OVERVIEW

The data below highlights the top five areas of qualification from the 37 modified audit opinions in FY2023. Going concern issues accounted for more than half of these opinions, underscoring the economic challenges faced by listed companies, often exacerbated by losses, negative cash flows, and difficulties in meeting financial obligations. Matters related to consolidation and equity accounting highlighted the complexities in group structures and challenges in obtaining timely and accurate financial information from subsidiaries and associates, particularly overseas entities. Recurring issues with financial instruments, especially in ECL assessments, indicated ongoing valuation difficulties and the need for complex judgement. Asset impairment remained a significant focus, with challenges in determining recoverable amounts and assessing key valuation assumptions.

Common audit modifications highlight key financial reporting areas that warrant review. Special attention should be directed towards enhancing going concern assessments, especially in challenging economic conditions. Improvements in group reporting processes, particularly for overseas entities, are necessary to ensure timely and accurate provision of financial information. Valuation methodologies for financial instruments and impairment assessments merit thorough review, with emphasis on robust documentation of judgements and assumptions.

37 listed companies with modified audit opinions in 2023:
Top 5 areas of qualification/disclaimers (occurrences)



AVOIDABLE ERRORS IN FINANCIAL REPORTING

An analysis of the audit qualification situation provides insight into the quality of financial reporting in Singapore, as shown by the previously presented data. Audit qualifications typically arise from issues that are both material and pervasive, often involving complex and judgemental matters.

However, our surveillance of financial statements has also revealed numerous errors originating from avoidable factors rather than intricate technical challenges. These errors are fundamental issues that should be taken seriously. Although some errors were seemingly minor, they could potentially escalate into significant concerns if not promptly addressed.

In the subsequent section, we delineate three primary factors contributing to these avoidable errors, supplemented by examples and recommendations for improvement directed towards management and directors. By addressing these factors, management and directors can significantly enhance the accuracy and reliability of their financial reporting, thereby reducing the likelihood of audit qualifications. The examples are drawn from both listed and non-listed companies, and have been anonymised and modified to protect the identities of the companies.

ADDRESSING AVOIDABLE ERRORS

Oversights in basic accounting practices

Examples

- Erroneously **adjusted material prior year errors in the current year's profit and loss statements**, rather than adjusting comparatives and opening retained earnings.
- Inappropriately **classified amounts due from subsidiaries as current assets, despite repayment not being expected within 12 months from the reporting date**.
- Incorrectly **accounted for an investment as both a subsidiary and a joint venture**, resulting in double recording of the same item.

Guidance for management and directors

These are **basic accounting practices** which, if applied wrongly, **can materially misstate a company's financial position and performance**.

Directors and management should ensure that their **finance teams possess a thorough understanding of core accounting concepts** and their practical application. **Regular training, robust internal review processes, and effective communication with auditors** are essential to prevent such basic errors.

ADDRESSING AVOIDABLE ERRORS

Prioritising convenience over compliance

Examples

- Disregarded necessary asset impairments, **citing instructions from its headquarters** and **deeming the process 'too troublesome'**.
- Inadequately assessed ECL for long-overdue trade receivables from director-related debtors. Directors asserted that these receivables were recoverable, **basing this view on the familiar relationship rather than conducting a proper assessment**.

Guidance for management and directors

Compliance with accounting standards is not optional and it should not be sidestepped for convenience.

The application of accounting standards and financial reporting practices must remain unaffected by personal relationships or external influences, including pressures from holding companies.

Companies and directors should **promote and cultivate a voluntary compliance culture** rather than encourage shortcuts. This approach not only ensures regulatory adherence but also upholds the integrity of financial reporting.

ADDRESSING AVOIDABLE ERRORS

Operational challenges

Examples

- Holding company decided not to consolidate the FS of a subsidiary with NCI, **citing doubts about their reliability due to an ongoing dispute with the NCI**.
- Holding company voluntarily deconsolidated its subsidiary due to **challenges in obtaining financial records** as the subsidiary was undergoing liquidation.
- Failed to perform impairment assessments for intangible assets and non-financial assets, **citing a lack of financial means to engage independent valuers**.

Guidance for management and directors

Companies should **make every effort** to comply with accounting standards, even in the face of operational challenges. While difficulties in obtaining information or conducting assessments may arise, these should not be viewed as justifications for non-compliance. Instead, companies should **explore alternative approaches** to meet their reporting obligations.

Where full compliance is genuinely impossible, companies should **provide comprehensive disclosures** explaining the circumstances, the steps taken to mitigate the issue, and the potential impact on the FS. The companies should also **plan and set targets to resolve these issues**.

In Conclusion: Raising the Bar of Financial Reporting

ACRA intends for this report to serve as a valuable resource for directors, management, and other stakeholders in enhancing financial reporting practices. By identifying common pitfalls and offering guidance, we aim to enable companies to strengthen their financial reporting review processes.

It is imperative to underscore that directors hold the primary responsibility for ensuring that financial statements present a true and fair view and comply with prescribed accounting standards. This responsibility remains unchanged even when auditors issue modified audit opinions on the financial statements. Directors, particularly those of companies with recurring modified opinions, must take swift and decisive actions to rectify the underlying issues. ACRA remains committed in upholding high financial reporting standards in Singapore. While we will continue to support companies in their improvement efforts, we will also not hesitate to take appropriate regulatory actions against non-compliant directors, as evidenced in a recent enforcement case[1].

With companies and directors playing their part, we can further enhance Singapore's reputation for high-quality financial reporting, bolster investor confidence, and support the integrity of our financial markets. We encourage all stakeholders to utilise the insights from this report to assess and refine their financial reporting practices, raise the bar of financial reporting, and contribute to the overall robustness of Singapore's financial reporting ecosystem.

1 https://www.acra.gov.sg/news-events/news-details/id/848

ANNEX

About ACRA’s FRSP

ANNEX – ABOUT ACRA'S FRSP

Enforcing directors' duties over financial reporting

ACRA administers the Companies Act that applies to companies incorporated in Singapore. Companies incorporated outside Singapore as well as other investment vehicles such as real estate investment trusts and business trusts do not come under ACRA's purview.

Sections 201(2) and 201(5) of the Companies Act require the directors of a company to present and lay before the company, at its annual general meeting, FS that:

a) comply with the prescribed accounting standards[1] in Singapore; and
b) give a true and fair view of the financial position and financial performance of the company.

The directors must fulfil both conditions to discharge their responsibilities under the Companies Act.

Through the FRSP, ACRA ascertains whether selected FS of Singapore-incorporated companies are prepared in compliance with the prescribed accounting standards[1] in Singapore.

[1] Singapore Financial Reporting Standards (International) or Financial Reporting Standards

Focusing on what matters to investors

The ultimate goal of the FRSP is to ensure that investors are provided with reliable and comparable FS for their decision-making. As such, our review is focused on matters that may significantly impact the key measures used by investors such as revenue, profit, net assets and operating cash flows.

In determining the impact to key measures used by investors, quantitative and qualitative factors are considered. For example, emphasis will typically be placed on how properties are classified by a property-developer company, and how a complex or unusual transaction resulting in a significant gain or loss is accounted for. More questions may be raised on the income statement if a company appears to face significant pressures in showing a trend of increasing earnings, or to build buffer provision amidst a difficult business environment.

ANNEX – ABOUT ACRA'S FRSP

Review outcome

Where ACRA finds non-compliance(s) with the prescribed accounting standards, ACRA will issue findings letters to inform directors of the non-compliance(s) and encourage them to take note in the preparation of future financial statements. Where necessary, ACRA may seek remediation actions from the company, such as revision of past financial statements. In more serious instances of non-compliance, ACRA may issue warning letters, impose composition sums against the directors, or even prosecute the directors, to deter potential offenders.

Compliance with the relevant acts and rules

Failure to comply with sections 201(2) and/or (5) of the Companies Act carries a penalty of up to S$50,000. For offences committed with the intent to defraud, the maximum penalty is S$100,000 and/or imprisonment of up to three years. The law imposes duties equally on all directors, i.e., non-executive directors and nominee directors are equally liable for breach of this duty.

Directors of listed companies should consider the implications from the SGX Listing Rules:

a) under Rule 703, the directors of a listed company that is required to re-state comparatives in the subsequent year's FS and/or re-state and re-audit the past year's FS, must also consider whether the re-statement constitutes 'material information' in relation to the company and, if so, an announcement should be made; and

b) under Rule 704(7) and Appendix 7.4.1(k), a director who receives a warning letter from a regulatory authority must announce that fact at his future appointment(s) or reappointment(s) as a director of any company listed on the SGX.