ACCOUNTING AND CORPORATE REGULATORY AUTHORITY

A publication by ACRA on the

DIRECTORS' GUIDE TO THE FINANCIAL REPORTING SURVEILLANCE PROGRAMME

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TABLE OF CONTENTS

PREFACE

The Companies Act (the Act) imposes specific obligations on all directors of Singapore incorporated companies, regardless of their role or financial expertise, regarding financial reporting. This guide elucidates these responsibilities, focusing on Sections 201(2) and 201(5) of the Act, which require directors to present financial statements that comply with the prescribed accounting standards[1] and give a true and fair view of the company's financial position and performance.

The Financial Reporting Surveillance Programme (FRSP), administered by ACRA since 2014, is a crucial component of Singapore's financial reporting regulatory framework. Under the FRSP, ACRA reviews selected financial statements for compliance with the prescribed accounting standards and publishes FRSP reports summarising the activities and findings of the programme. These reports aim to help companies avoid common pitfalls and improve their financial reporting by enhancing their understanding of the interpretation and application of the prescribed accounting standards.

This guide accompanies the FRSP report issued in 2025 and aims to provide directors with essential information regarding their financial reporting responsibilities and the FRSP regime. It is presented in the form of Frequently Asked Questions (FAQs) to address the following three key areas:

(i) Directors' statutory responsibilities under the Act regarding true and fair financial statements;

(ii) ACRA's FRSP; and

(iii) Directors’ role and responsibilities in the FRSP process.

ACRA strongly recommends reading this guide in conjunction with the FRSP report and other resources mentioned herein. Together, these documents provide a comprehensive overview of directors' responsibilities, the FRSP process, and practical guidance for navigating financial reporting requirements.

For matters not addressed in this guide or the FRSP report, particularly in relation to directors' duties on financial reporting or the FRSP process, directors are advised to seek professional advice or contact ACRA for further clarification.

[1] Accounting Standards refer to Singapore Financial Reporting Standards (International) (SFRS(I)s), Singapore Financial Reporting Standards (SFRS), Singapore Financial Reporting Standards for Small Entities (SFRS for SE) and Charities Accounting Standards.

Directors’ statutory responsibilities under the Act regarding true and fair financial statements

1.1 Are all directors, including independent directors and foreign directors, liable/responsible for ensuring that the financial statements comply with the prescribed accounting standards?

Yes, the Act does not differentiate between the different types of directors in relation to their duties with regards to presenting financial statements under the Act. Amongst other things, the directors of a company are required to present and lay before the company, at its annual general meeting, financial statements that:

a) comply with the prescribed accounting standards in Singapore; and
b) give a true and fair view of the profit or loss, and the state of affairs of the company

(See section 201 of the Act.)

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

1.2 Why are directors held responsible for the financial statements, when these are usually prepared/approved by the management including the Chief Executive Officers or Chief Financial Officers?

Directors are held responsible for financial statements because of their statutory duties under section 201 of the Act.

While management is responsible for preparing the financial statements, directors, as stewards of the company, are ultimately accountable for the financial statements. Directors must actively maintain oversight which includes ensuring that the figures presented are consistent with their understanding of the business and that management's judgement has not been aggressive. Directors are required to discharge these duties with due diligence.

1.3 Why are directors, who are not accounting-trained, held responsible for non-compliances with the prescribed accounting standards found in the financial statements?

Directors' responsibilities for financial reporting apply regardless of their background and training. The Board of Directors are appointed as stewards to manage the company on behalf of shareholders. While not all directors are accounting-trained, they should, as part of their stewardship duty, ensure sufficient board diversity that includes accounting-trained directors.

It is important to note that section 157C of the Act permits directors to rely on information and advice from other parties in the preparation of financial statements.

We take this into consideration when determining the appropriate regulatory action against directors in the event of non-compliance.

1.4 How can directors identify accounting issues in their companies’ financial statements? Are they expected to have deep knowledge?

Directors should use their business understanding and any accounting knowledge, combined with management and external auditor’s input, to identify potential accounting issues. Directors can identify accounting issues in financial statements by examining unusual financial fluctuations and discuss material and/or complex transactions with management and auditors. In addition, directors should keep themselves regularly updated on new accounting standards and emerging issues.

For example, during our reviews, we identified discrepancies in the cash flow statements that did not align with commercial reality, where investing cash flows were presented as operating cash flows and vice versa. These significant inconsistencies are examples of the issues that could have been detected by the directors in their review of the financial statements.

While directors are not expected to be accounting experts, they are expected to possess a reasonable level of financial literacy, enabling them to understand and interpret financial statements, assess the company's financial performance, and identify potential risks. This includes understanding key financial ratios, accounting policies, and the impact of significant transactions on the financial statements.

1.5 What are the resources available to directors to guide them in fulfilling their responsibilities under the Act to ensure that the financial statements are compliant with the prescribed accounting standards?

ACRA issues a Financial Reporting Practice Guidance[2] annually to highlight areas of focus to help directors in reviewing the financial statements. Our FRSP reports[3] also highlight common areas of non-compliance that we have observed and potential red flags. These resources offer directors examples and best practices to enhance their oversight of financial reporting.

ACRA also collaborates with external partners to disseminate these resources through conferences and training courses which are available to directors. Examples of such collaboration include the annual Audit and Risk Committee Seminar jointly organised by ACRA, Singapore Exchange (SGX) and the Singapore Institute of Directors (SID), the annual Institute of Singapore Chartered Accountants (ISCA) Conference, and the SID’s Listed Entities Directors 5 – Audit Committee essentials course which is offered approximately three times each year.

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2 https://www.acra.gov.sg/training-and-resources/publications/bulletins-and-guidance/practice-guidance
3 https://www.acra.gov.sg/training-and-resources/publications/reports/financial-reporting-surveillance-programme-reports

ACRA's Financial Reporting Surveillance Programme (FRSP)

2.1 What is the FRSP?

The FRSP is a programme administered by ACRA since 2014 to ascertain whether the annual financial statements of Singapore-incorporated companies are prepared in compliance with the prescribed accounting standards in Singapore. For more information, please refer to our website.

2.2 What are the companies that are included in the scope of the FRSP?

All Singapore-incorporated companies are within the scope of the FRSP and can potentially be selected for review.

2.3 What is the focus of review under the FRSP?

The FRSP focuses on compliance with the prescribed accounting standards. Our review examines areas that may significantly impact key financial measures used by investors, such as revenue, profit, net assets, and operating cash flows. We scrutinise complex or unusual transactions, particularly those resulting in significant gains or losses, and assess the appropriateness of accounting policies and their application, especially in areas prone to judgement or estimation. The FRSP also evaluates the adequacy and clarity of disclosures, particularly for material items or areas of estimation uncertainty, and review the consistency between financial statements and other parts of the annual report.

2.4 How does ACRA select financial statements for the review under the FRSP?

We primarily select financial statements for review using a risk-based approach. Additionally, we consider referrals from other government agencies in our selection process.

While we review financial statements from a range of companies, we place greater emphasis on listed companies, especially in the following areas:

a) Companies with significant public interest risks, based on criteria such as market capitalisation, revenue and asset size.
b) Companies with operations that require subjective judgement in accounting for their transactions, which increases the risk of misstatement.
c) Financial statements with modified audit opinions, as these may indicate potential non-compliance with the prescribed accounting standards and other requirements of the Act.

This targeted approach allows us to efficiently allocate resources and focus on areas where the risks of non-compliance or misstatement are higher, thereby enhancing the effectiveness of the surveillance programme.

2.5 Does ACRA only review financial statements with modified audit opinions?

No, we may also review financial statements with clean audit opinions. An unmodified audit opinion provides reasonable assurance, but it does not guarantee that financial statements are entirely free from material misstatements. Based on our experience, having financial statements with clean audit opinions does not guarantee that they are free from financial reporting deficiencies.

2.6 What is the review process and how long does it take before a conclusion is reached?

Upon selection of financial statements for review, our officers will deep dive to understand and assess the issues. Enquiry letters will be sent to directors to seek clarifications and/or supporting documents. We consult with the Financial Statements Review Advisory Panel under ISCA (ISCA-FSRAP) to determine the non-compliance for cases involving listed companies or significant and complex accounting issues. The ISCA-FSRAP comprises experienced audit partners from various audit firms in Singapore, bringing invaluable practical expertise to the review process.

The duration of the review process depends on the complexity of the issues and the quality of the responses provided by the directors to our enquiries. Generally, it will take two to three rounds of enquiry. However, if the issues are more complex or the responses are inadequate, more rounds of enquiry or meetings with directors and management may be needed, and this will extend the time needed to complete the review process.

2.7 What happens if ACRA finds non-compliances in the financial statements?

We will issue a findings letter to inform directors of the non-compliance and notify them to take note in the preparation of future financial statements. Where necessary, we may seek remediation actions from the company, such as revision of past financial statements. In more serious instances of non-compliance, we may issue warning letters, impose composition sums against the directors, or even prosecute the directors, to deter potential offenders.

2.8 If my company had been selected for review in this year's review cycle, does that mean that my company will not be reviewed again in the subsequent year(s)' cycle?

Being selected for review in one cycle does not exempt a company from being selected again in subsequent years. Our selection process for financial statement reviews is on a risk-based approach that considers various factors each year. Companies should therefore maintain high standards of financial reporting every year, irrespective of whether they have been recently reviewed.

Directors’ role and responsibilities in the FRSP process

3.1 What is the usual timeframe provided to directors to respond to the enquiry letter? How is the situation handled if the directors are overseas? Are they permitted to request an extension for submitting their response?

Generally, directors are given between 2 and 4 weeks to respond with a written reply depending on complexity. This also applies to directors based overseas. However, if directors require more time to respond, they can request for an extension to the timeline. Extension requests should include the reasons for the extension and the proposed reviewed timeline. We will review these requests on a case-by-case basis and grant appropriate extensions where circumstances warrant.

3.2 Can the directors request to meet with ACRA to discuss the issues and explain their positions with a meeting?

Yes, we accommodate directors' requests for meetings. If the areas under review necessitate a detailed understanding of the business and its circumstances, we may also initiate meetings with the directors as part of the review process. However, subsequent to the meeting, we will still expect a written response to our enquiry as part of our due diligence and documentation in the review.

3.3 What are the consequences if directors choose not to respond to enquiry letters from ACRA?

We have not encountered a situation where directors have chosen not to respond to our enquiry letters. However, if such a situation does occur, it would be viewed very seriously. Under section 39(6) of the ACRA Act, it is an offence for someone to refuse, without lawful excuse, to provide any information required of them.

3.4 What are ACRA’s powers under the Companies Act to request for information from directors?

Our power to request information from directors is derived from the ACRA Act. Specifically, under section 39(1) of the ACRA Act, we have the authority to require any person to furnish information or produce any book or document in its administration of the Companies Act. In addition, section 39(1)(c) of the ACRA Act empowers us to order the attendance of individuals before an officer for statement taking.

Under the FRSP, we do not explicitly exercise these powers to demand information or documents. The FRSP operates on a cooperative basis, encouraging voluntary compliance and engagement from companies and directors. However, if necessary, we will not hesitate to exercise these powers under the ACRA Act.

3.5 How much information is required to be included within the response?

A thorough response from companies allows us to complete our review in a timely manner and generally eliminates the need for further enquiries. Directors are encouraged to adopt the following good practices when responding to our enquiries:

- address every question raised;
- explain the company’s circumstances and commercial substance of the transactions;
- provide insights into the basis for adopting that accounting treatment;
- provide insights on how our concerns may be alternatively addressed;
- provide all the documents requested; and
- maintain accurate and consistent fact pattern throughout the explanations.

It is essential to refrain from merely referencing the prescribed accounting standards requirements without offering a clear explanation of the specific circumstances and the reasoning behind the approach taken for accounting treatment.

3.6 Who is the appropriate person to sign off on the response to ACRA?

The directors may appoint a representative to sign off on the responses to us on their behalf. However, we expect the directors to review and approve the responses before they are submitted to us.

3.7 Who has the final decision in deciding whether there is a financial reporting non-compliance?

We will determine the financial reporting non-compliance in consultation with the ISCA-FSRAP, where necessary. Subsequently, we will calibrate and decide on regulatory outcomes. In the case of prosecution, the final adjudication is done by the Courts.

3.8 Will regulatory actions still be served if the directors are willing to rectify the financial statements?

Rectification does not change the fact that a non-compliance had already occurred. However, prompt rectification is generally considered as a mitigating factor and as such, the directors’ willingness to rectify non-compliances in the financial statements will be considered when determining the regulatory outcome.

3.9 What are the consequences if the directors choose not to rectify the subsequent years’ financial statements to address any of the non-compliances issued?

If directors choose not to rectify subsequent years' financial statements to address non-compliances, we will first seek to understand the reasons behind this decision. We recognise that there may be valid circumstances or considerations that have led to this choice.

However, if we determine that the basis for not addressing the non-compliances is not appropriate, we may take further action. This could include:

a) taking regulatory action against the directors for non-compliance with the prescribed accounting standards; or
b) applying to the court for a restatement of the defective financial statements under section 202B of the Act.

The specific course of action would depend on the nature and severity of the non-compliance, as well as the company's response and justification for not addressing the issue.

About Accounting and Corporate Regulatory Authority

The Accounting and Corporate Regulatory Authority (ACRA) is the regulator of business registration, financial reporting, public accountants, and corporate service providers. We are responsible for developing the accountancy sector and setting the accounting standards for companies, charities, co-operative societies, and societies in Singapore. ACRA fosters a vibrant and trusted business environment that enables innovation and growth and contributes towards making Singapore the best place for business.

For more information, please visit www.acra.gov.sg

ACRA
Accounting and Corporate Regulatory Authority