

Observations by the Financial Statements Review Committee – 1 January 2009 –31 December 2009

The Financial Statements Review Committee (FSRC) of the Institute reviews audited financial statements with the objective of providing constructive feedback in areas where the presentation or content of the financial statements appear to fall short of compliance with the statutory requirements including the Singapore Financial Reporting Standards, the Institute's published standards and other promulgations.

In the course of the Committee's review of financial statements for financial periods ended 31 December 2007, 31 December 2008 and up to 30 September 2009, it was noted that the disclosure requirements as appended below were not complied with in certain sets of financial statements reviewed.

Financial Standard	Reporting Observations
1. <u>FRS 1</u>	<u>Presentation of Financial Statements</u>
FRS 1.29	<i>Materiality and Aggregation</i> Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial.
FRS 1.103(c)	<i>Notes - Structure</i> The notes shall inter alia: Provide additional information that is not presented on the face of the balance sheet, income statement, statement of changes in equity or cash flow statement, but is relevant to an understanding of any of them. There should be an analysis for <i>Other Operating Expenses/Other Creditors</i> if these amounts are material. Similarly, the nature of <i>Other item</i> in a tax reconciliation presented in accordance with FRS 12.81(c) should be disclosed if this item is material. Materiality is defined in FRS 8.5 as follows: <ul style="list-style-type: none">• information is material if it could, individually or collectively, influence economic decisions of users;• materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.
FRS 1.32	<i>Offsetting</i> Assets and liabilities, and income and expenses, shall not be offset unless required or permitted by a Standard or an Interpretation.
FRS 1.36	<i>Comparative Information</i> Unless a Financial Reporting Standard permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information should be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

- FRS 1.38 When the presentation or classification of items in the financial statements is amended, comparative amounts should be reclassified, unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:
- a. the nature of the reclassification;
 - b. the amount of each item or class of items that is reclassified; and
 - c. the reason for the reclassification.
- FRS 1.76 *Information to be presented either on the face of the balance sheet or in the notes*
- An entity shall disclose the following, either on the face of the balance sheet or in the notes:
- (a) for each class of share capital:
- (iii) par value per share, or that the shares have no par value;
 - (v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital.
- (b) a description of the nature and purpose of each reserve within equity.
- In several sets of financial statements reviewed, the information as prescribed by FRS 1.76(a)(iii)&(v) was not disclosed.
- In certain sets of financial statements reviewed, the nature of the reserves and purpose such as whether there were any restrictions on distribution of the reserves were not disclosed.
- FRS 1.95 *Information to be presented either on the face of the income statement or in the notes*
- An entity shall disclose, either on the face of the income statement or the statement of changes in equity, or in the notes, the amount of dividends recognized as distributions to equity holders during the period, and the related amount per share.
- In certain sets of financial statements reviewed the amount of dividend per share was not disclosed.
- FRS 1.96 *Statement of changes in equity*
- An entity shall present a statement of changes in equity showing on the face of the statement:
- (a) profit or loss for the period;
 - (b) each item of income and expense for the period that, as required by other Standards or by Interpretations, is recognised directly in equity, and the total of these items;
 - (c) total income and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to equity holders of the parent and to minority interest.
- In several sets of financial statements reviewed, it was observed that the information as required by paragraphs (b) & (c) was not disclosed.
- FRS 1.97 An entity shall also present, either on the face of the statement of changes in equity or in the notes inter alia:
- (a) the amounts of transactions with equity holders acting in their

capacity as equity holders, showing separately distributions to equity holders.

Waivers of loans by shareholders, acting in their capacity as equity holders, should be treated as shareholders' transaction as per FRS 1.97(a) and credited to relevant reserves in the statement of changes in equity. Waivers of balances with shareholders which are non-trade in nature should be examined carefully. Such transactions should not be credited to profit or loss in the income statement unless they are income in nature.

FRS 1.113

Disclosure of accounting policies

An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 116) management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements.

FRS 1.116

Key sources of estimation uncertainty

An entity shall disclose in the notes, information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- a. their nature; and
- b. their carrying amount as at the balance sheet date.

In several sets of financial statements reviewed the significant estimates of uncertainty and judgements made and the carrying amounts of the related assets and liabilities were not disclosed.

[FRS 1.124A]

An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

[FRS 1.124B]

To comply with paragraph 124A, the entity discloses the following:

- (a) qualitative information about its objectives, policies and processes for managing capital, including (but not limited to):
 - (i) a description of what it manages as capital;
 - (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
 - (iii) how it is meeting its objectives for managing capital.
- (b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (e.g. some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (e.g. components arising from cash flow hedges).

- (c) any changes in (a) and (b) from the previous period.
- (d) whether during the period it complied with any externally imposed capital requirements to which it is subject.
- (e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

In certain sets of financial statements reviewed, the information as mentioned above was not disclosed comprehensively.

2. FRS 2

Inventories

FRS 2.36(a) The accounting policy on stock obsolescence should be disclosed.

FRS 2.36(d) read *Disclosure*

with FRS 2.38 The financial statements should disclose the amount of inventories recognized as an expense during the period.

The amount of inventories recognized as an expense during the period, which is often referred to as cost of sales, consists of those costs previously included in the measurement of inventory that has now been sold and unallocated production overheads and abnormal amounts of production costs of inventories. The circumstances of the entity may also warrant the inclusion of other amounts, such as distribution costs.

In certain sets of financial statements reviewed, the cost of inventories recognized as an expense was not disclosed.

3. FRS 7

Cash Flow Statements

FRS 7.6

Definitions

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash or cash equivalents, which are pledged to banks to secure credit facilities, should not be included as cash and cash equivalents (CCE) in the cash flow statement.

In certain sets of financial statements reviewed, pledged fixed deposits were included as CCE and such presentation would be a non-compliance of FRS 7.6.

FRS 7.17 (c) & (d)

Financing activities

The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the enterprise. Examples of cash flows arising from financing activities are inter alia:

- (c) cash proceeds from long term borrowings
- (d) cash repayments of amounts borrowed.

FRS 7.21

Reporting Cash flows from investing and financing activities

An enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis.

In certain sets of financial statements reviewed, the cash inflows from the new loans were netted off with the cash outflows on repayment of pre-existing loans. This is a non-compliance of FRS 7.17(c) & (d) & FRS 7.21.

FRS 7.28

Foreign currency cash flows

Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. *However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.*

In certain sets of financial statements reviewed, the above requirements (in italics) were not complied with.

FRS 7.43 & 7.44

Non-cash transactions

According to FRS 7.43, investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

In respect of the above, purchase of property, plant and equipment (PPE) disclosed under cash flows used in investing activities should only include cash purchases of these assets. There should also be a reconciliation between the cash flows on purchase of property, plant and equipment in the cash flow statement and the additions in these assets in the PPE schedule as per FRS 7.43. In certain sets of financial statements, these requirements were not complied with.

4. FRS 8

Accounting policies, changes in accounting estimates and errors

FRS 8.28

Disclosure

There should be disclosure of whether there is any new & revised FRS & INT FRS adopted by the entity, which have a material effect on the financial statements as per FRS 8.28.

In certain sets of financial statements reviewed, the list of new & revised FRS adopted by the entity was incomplete. *The new FRS 32: Financial Instruments: Presentation should be adopted together with FRS 107: Financial Instruments: Disclosure, for financial periods commencing 1.1.2007 by entities incorporated or foreign companies registered under the Companies Act and listed on the Singapore Exchange, and from 1.1.2008 by all other entities incorporated or registered in Singapore.*

However, in certain sets financial statements reviewed, the new FRS 32 was omitted and not mentioned together with FRS 107, which was

adopted by the entity. In other sets of financial statements reviewed, the list of new & revised FRSs & INT FRS adopted by the entity was incomplete.

In addition to the above observations, in certain sets of financial statements reviewed, there was no disclosure of whether the entity has adopted any new & revised FRSs, which have a material effect on the financial statements.

FRS 8.30

There should be disclosure of the new FRS & INT FRS issued but not effective and known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard or interpretation will have on the entity's financial statements in the period of initial application.

In certain sets of financial statements reviewed, there was no disclosure of whether the new FRS & INT FRS issued but not effective have any possible impact on the entity's financial statements in the period of initial application.

5. FRS 12

Income Taxes

FRS 12.81(c)

Disclosure

There should be an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:

- (i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed, or
- (ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed, for example, tax rates which have been enacted or substantially enacted by balance sheet date.

In certain sets of financial statements reviewed, the tax reconciliation was not disclosed as required by FRS 12.81(c).

In other sets of financial statements reviewed, the tax reconciliation was incorrect. For example, certain items such as effect of utilization of current year's capital allowances should not be included in the tax reconciliation. This should have been effected in the current year's tax expense. The effect of reduction in tax rates should also be disclosed in the tax reconciliation.

In certain sets of financial statements where the tax reconciliation was shown, the nature of the material reconciling items was not adequately disclosed and were grouped under 'other items'.

6. FRS 16

Property, Plant and Equipment

FRS 16.73(e)(i)-(ix)

Disclosure

In respect of each class of property, plant and equipment there shall be disclosure of the following:

A reconciliation of the carrying amount at the beginning and end of the period showing inter alia the following movements:

- Additions;
- Disposals;
- Acquisitions through business combinations;
- Increases or decreases resulting from revaluations and from impairment losses recognized or reversed directly in equity in accordance with FRS 36;
- Impairment losses recognized or reversed in the profit and loss in accordance with FRS 36;
- Depreciation;
- Net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and
- Other changes

It has been observed in several sets of financial statements reviewed that the *comparatives* for the above movements have not been disclosed. Such a disclosure is a requirement of FRS 1.36.

FRS 16.74(a)

The financial statements shall disclose inter alia:
The existence and amounts of restrictions on title, and property, plant and equipment (PPE) pledged as security for liabilities.

In certain sets of financial statements reviewed, the *carrying amounts* of the pledged PPE were not disclosed.

FRS 16.77

When property, plant and equipment are stated at revalued amounts, the following information, inter alia, should be disclosed:

- the basis used to revalue the assets; FRS 16.77(c)&(d);
- whether an independent valuer was involved; FRS 16.77(b);
- the carrying amount of each class of revalued PPE had it been carried at cost less depreciation should be disclosed. FRS 16.77(e).

In certain sets of financial statements reviewed, the information as prescribed in FRS 16.77(e) was not disclosed.

7. FRS 17

Leases

FRS 17.35(c)

Operating leases – in the financial statements of lessees
The operating lease payments recognised as an expense for the period should be disclosed by the lessee.

FRS 17.35(d)

A general description of the lessee's significant leasing arrangements as stipulated in FRS 17.35(d)(i)-(iii) should be disclosed.

8. FRS 18

Revenue

- FRS 18.14 & 18.20 *Sale of goods & Rendering of services*
Some of the accounting policies disclosed on the recognition of revenue were incomplete. In this respect, reference should be made to FRS 18.14, which prescribes the conditions for recognising revenue from the sale of goods, and FRS 18.20 which prescribes the conditions for recognising revenue from the rendering of services.
- In certain sets of financial statements reviewed, the accounting policies on recognition of revenue from sale of goods and rendering of services were incomplete & not in accordance with FRS 18.14 & 18.20.
- FRS 18.35(a) An entity should disclose:
- The accounting policies adopted for the recognition of revenue including the methods adopted to determine the stage of completion of transactions involving the rendering of services;
- In certain sets of financial statements reviewed, the revenue recognition policies in respect of commission and rental income were not disclosed.
9. FRS 19 Employee benefits
FRS 19, 1.108(b) & 1.110
The accounting policy on employees benefit costs should be disclosed.
- In certain sets of financial statements reviewed, the above policy was not disclosed.
10. FRS 21 The Effects of Changes in Foreign Exchange Rates
- Reporting at subsequent balance sheet dates*
FRS 21.23 At each balance sheet date:
- a. foreign currency monetary items should be reported using the closing rate;
 - b. non-monetary items which are carried in terms of historical cost in a foreign currency shall be reported using the exchange rate at the date of the transaction; and
 - c. non-monetary items, which are carried at fair value in a foreign currency, shall be reported using the exchange rates that existed when the values were determined.
- The accounting policies on foreign currency transactions in the notes to the financial statements should distinguish between monetary and non-monetary items and comply with the above accounting standard in foreign currency translation.
- FRS 21.9 *Functional Currency*
- The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:
- (a) the currency:
 - (i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and
 - (ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.
 - (b) the currency that mainly influences labour, material and other

costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

FRS 21.10 The following factors may also provide evidence of an entity's functional currency:

- (a) the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated.
- (b) the currency in which receipts from operating activities are usually retained.

FRS 21.11 The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its subsidiary, branch, associate or joint venture):

- (a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings, all substantially in its local currency.
- (b) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities.
- (c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.
- (d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

FRS 21.12 When the above indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators in paragraph 9 before considering the indicators in paragraphs 10 and 11, which are designed to provide additional supporting evidence to determine an entity's functional currency.

FRS 21.13 An entity's functional currency reflects the underlying transactions, events and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.

Members are advised to refer to the above for guidance in selecting a suitable functional currency for the entity. In certain sets of financial statements reviewed, it was observed that the above guidelines were not referred to in the selection of a suitable functional currency for the entity.

11. FRS 24 Related Party Disclosures

FRS 24.9 *Definitions*

The following terms are defined in FRS 24.9

- FRS 24.9
- related party
 - related party transaction
 - control

- significant influence

There are two broad categories of related parties as follows:

- a. related companies as defined in section 5 of the Companies Act; and
- b. individuals or entities whereby one party has the ability to exercise significant influence over the other party in making financial and operating decisions.

The nature of the related party relationships should be clearly defined and disclosed in the financial statements. When the related parties fall under category (b) as mentioned above, they should be disclosed as *related parties* and not related companies which would not be consistent with the Companies Act.

In certain sets of financial statements reviewed, related parties which belonged to category (b) as mentioned above were erroneously described as related companies.

FRS 24.16

Disclosure

An entity shall disclose key management personnel compensation in total and for each of the following categories:

- a. short-term employee benefits
- b. post-employment benefits
- c. other long-term benefits;
- d. termination benefits; and
- e. share-based payment.

The key management personnel compensation including directors' remuneration should be separately disclosed as per FRS 24.16. The related CPF contributions should also be disclosed as per FRS 24.16.

In certain sets of financial statements reviewed, the above information was not disclosed.

FRS 24.17

If there have been transactions between related parties, an entity shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements in FRS 24.16 to disclose key management personnel compensation. At minimum, disclosures shall include:

- a. the amount of transactions;
- b. the amount of outstanding balances and;
 - i. their *terms and conditions*, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - ii. details of any guarantees given or received;
- c. provisions for doubtful debts related to the amount of outstanding balances; and
- d. the expense recognized during the period in respect of bad or doubtful debts due from related parties.

In several sets of financial statements reviewed, the terms and conditions of the related party transactions were not disclosed.

12. FRS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries
 FRS 27.4 *Definitions*
 A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

 Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Disclosure
 FRS 27.40(c) There shall be disclosure in the consolidated financial statements, where applicable, of the nature of the relationship between the parent and a subsidiary of which the parent does not own, directly or indirectly through subsidiaries, more than one half of the voting power.

 FRS 27.40(d) In addition to the above, FRS 27.40(d) requires the disclosure of reasons as to why owning more than half of the voting or potential voting power in an entity does not constitute control.

 In certain sets of financial statements reviewed, the above prescribed explanations were not disclosed.
13. FRS 28 Investments in Associates
 FRS 28.7(c) There shall be disclosure of the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence;

 The above prescribed information was not disclosed in certain sets of financial statements reviewed.
14. FRS 32 Financial Instruments: Disclosure and Presentation

 FRS 32.11 *Definitions*
 [FRS 32.11] A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

 Club memberships held by an entity, which do not satisfy the criteria of a financial instrument as defined in FRS 32.11, should not be accounted for as financial assets. Under such circumstances, the club memberships may be accounted for as intangibles and assessed for impairment in accordance with FRS 36.

 In certain sets of financial statements reviewed, it was observed that prepayments have been classified as a financial asset under receivables. In this respect, material prepayments should be disclosed separately from financial assets, as they do not qualify as financial instruments under FRS 32 & 39.

 FRS 32.56 *Risk management policies and hedging activities*
 An entity shall describe its financial risk management objectives and policies, including its policy for hedging each main type of forecast transaction for which hedge accounting is used.

 [FRS 107.33] *Nature and extent of risks arising from financial instruments*
Qualitative disclosures

For each type of risk arising from financial instruments, an entity shall disclose:

- (a) the exposures to risk and how they arise;
- (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
- (c) any changes in (a) or (b) from the previous period.

FRS 32.60

Terms, conditions and accounting policies

For each class of financial asset, financial liability and equity instrument, both recognised and unrecognised, an enterprise should disclose:

- a) information about the extent and nature of the financial instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows; and
- b) the accounting policies and methods adopted, including the criteria for recognition and basis of measurement applied.

[FRS 107.7]

Significance of financial instruments for financial position and performance

An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.

[FRS 107.31]

Nature and extent of risks arising from financial instruments

An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the reporting date.

In several sets of financial statements reviewed, the credit terms of the trade receivables and trade payables were not disclosed as prescribed above.

FRS 32.63(g) &
32.52(c)

When financial instruments held by entities create a potentially significant exposure to the risks described in FRS 32.52, terms and conditions that warrant disclosure include inter alia the collateral pledged in the case of a financial liability such as bank borrowings. In such cases, the *carrying amount* of the collateral pledged should be disclosed.

FRS 32.63(h) &
32.52(a)

In the case of financial instruments such as trade receivables and trade payables for which cash flows are denominated in currency other than the enterprise's functional currency, the amounts of receivables and payables which are to be settled in the respective foreign currencies should be disclosed.

The bank balances denominated in foreign currencies should also be disclosed as per FRS 32.52.

[FRS 107.31]
[FRS 107.34(a)]

Details are as mentioned above.

For each type of risk arising from financial instruments, an entity shall disclose inter alia:

Summary quantitative data about its exposure to that risk at the reporting date.

In certain sets of financial statements reviewed, the amounts of trade receivables and trade payables to be settled in the respective foreign

currencies were not disclosed. The bank balances denominated in foreign currencies were also not disclosed.

FRS 32.67

Interest rate risk

For each class of financial asset and financial liability, both recognised and unrecognised, the company should disclose information about its exposure to interest rate risk including:

- a. contractual repricing or maturity dates, whichever dates are earlier; and
- b. effective interest rates, when applicable.

[FRS 107.7 107.31 & 107.34]

Details are as mentioned above.

In several sets of financial statements reviewed the effective interest rates in respect of the entity's loans and hire purchase liabilities were not disclosed.

[FRS 107.37]

Financial assets that are either past due or impaired

An entity shall disclose by class of financial asset:

- (a) an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired;
- (b) an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired; and
- (c) for the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.

In certain sets of financial statements reviewed, there was no disclosure of the aging analysis of trade debts past due but not impaired.

[FRS 107.39]

Liquidity risk

An entity shall disclose:

- (a) a maturity analysis for financial liabilities that shows the remaining contractual maturities; and
- (b) a description of how it manages the liquidity risk inherent in (a).

[FRS 107 App B11-16]

The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows, for example:

- (a) gross finance lease obligations (before deducting finance charges);
- (b) prices specified in forward agreements to purchase financial assets for cash;
- (c) net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;
- (d) contractual amounts to be exchanged in a derivative financial instrument (e.g. a currency swap) for which gross cash flows are exchanged; and

(e) gross loan commitments.

Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

In certain sets of financial statements reviewed, it was observed that the undiscounted contractual cash flows as mentioned above were not disclosed.

[FRS 107.40]

Sensitivity analysis

Unless an entity complies with paragraph 41, it shall disclose:

(a) a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;

(b) the methods and assumptions used in preparing the sensitivity analysis; and

(c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.

In certain sets of financial statements reviewed, sensitivity analysis of certain types of market risks such as changes in foreign exchange rates and interest rates were not disclosed.

15. FRS 36

Impairment of Assets

FRS 36.130(a)

Disclosure

There should be disclosure of the events and circumstances that led to the recognition or reversal of each material impairment loss in respect of an individual asset or a cash-generating unit.

In several sets of financial statements reviewed, the events and circumstances that led to the recognition or reversal of each material impairment loss were not disclosed.

FRS 36.130(e)-(g)

The policy on impairment should disclose the manner in which impairment is determined such as how the recoverable amount of the respective asset is measured and the assumptions used to determine the recoverable amount of the assets (cash-generating units) during the period.

In certain sets of financial statements reviewed, it was observed that the accounting policy on impairment was not comprehensive and did not disclose the above prescribed information.

16. FRS 37

Provisions, Contingent Liabilities and Contingent Assets

Definitions

FRS 37.10

If letters of credit (secured), bank guarantees issued, performance bonds and security bonds do not satisfy the criteria for contingent liabilities as delineated in FRS 37.10, they should not be disclosed as contingent liabilities.

In certain sets of financial statements reviewed, the above items, which did

not satisfy the criteria for contingent liabilities as delineated in FRS 37.10, were disclosed as contingent liabilities.

17. FRS 39

Financial instruments: Recognition and measurement

FRS 39.43

Initial measurement of financial assets and financial liabilities

When a financial asset or financial liability is recognized initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

FRS 39.46(a)

Subsequent Measurement of Financial Assets

After initial recognition, an entity shall measure loans and receivables as defined in FRS 39.9 at amortised cost using the effective interest method

FRS 39.47

Subsequent Measurement of Financial Liabilities

After initial recognition, an entity shall measure trade and other payables at amortised cost using the effective interest method.

In certain sets of financial statements reviewed, it was observed that the accounting policies on trade and other receivables and trade and other payables were not in accordance with FRS 39 paragraphs 43, 46 & 47 as stated above.

18. FRS 40

Investment Property

FRS 40.79(e)

Disclosure - Cost Model

When an entity chooses the cost model to measure all of its investment property in accordance with FRS 16, the fair value of such properties should be disclosed.

In the exceptional cases described in paragraph 53, when an entity cannot determine the fair value of the investment property reliably, it shall disclose:

- (i) a description of the investment property;
- (ii) an explanation of why fair value cannot be determined reliably; and
- (iii) if possible, the range of estimates within which fair value is highly likely to lie.

In certain sets of financial statements reviewed, the fair value of the investment properties were not disclosed. There was also no disclosure of the reasons as to why the fair values of certain properties cannot be determined reliably.

FRS 40.75(f)(i)&(ii)

*Disclosure
Fair Value Model and Cost Model*

An entity shall disclose inter alia:

- (f) the amounts recognised in profit or loss for:
 - (i) rental income from investment property;
 - (ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period.

In certain sets of financial statements reviewed, the above information was not disclosed.

**Singapore
Standards
Auditing**

Observations
on

The following are observations of non-compliance of the SSAs in the auditor's report.

1. SSA 570

Going concern

The "except for" audit opinion is not appropriate when the intention is to have an emphasis of a matter in the audit report.

2. SSA 700

The independent auditor's report on a complete set of general purpose financial statements

The auditor should be consistent in giving his opinion on an audit report. In a certain set of financial statements reviewed, it was observed that a disclaimer was given on the accounting and other records of the entity *but a clean opinion was given on the financial statements of that same entity.*

For Singapore incorporated companies, the audit should be conducted in accordance with the SSAs rather than International Standards on Auditing as per SSA 700.

SSA 700

No audit opinion was given for the Group's financial statements and no reasons were given for this non-disclosure. This is a non-compliance of SSA 700.

SSA700.18

The auditor's report should have a title that clearly indicates that it is the report of an independent auditor.

In several audit reports reviewed, the term "independent" was omitted from the title of the auditor's report.

3. SSA 701

Modifications to the independent auditor's report

SSA 701.21

The audit report was qualified and the wordings used in the qualification was not in accordance with SSA 701.21 as follows:

"Subject to the above reservations, in our opinion"

The qualified statement should be worded as follows:

"In our opinion, *except for the effect on the financial statements of the matter* referred to in the preceding paragraph..."

The Financial Reporting Standards [FRS] in brackets [] apply to companies incorporated or foreign companies registered under the Companies Act, that have been and still are listed on a securities exchange in Singapore, for annual periods beginning on or after 1 January 2007. All other entities incorporated or registered in Singapore shall apply these FRS for annual periods beginning on or after 1 January 2008.