

Regulating Compliance in Financial Reporting - The Role of Regulatory Bodies

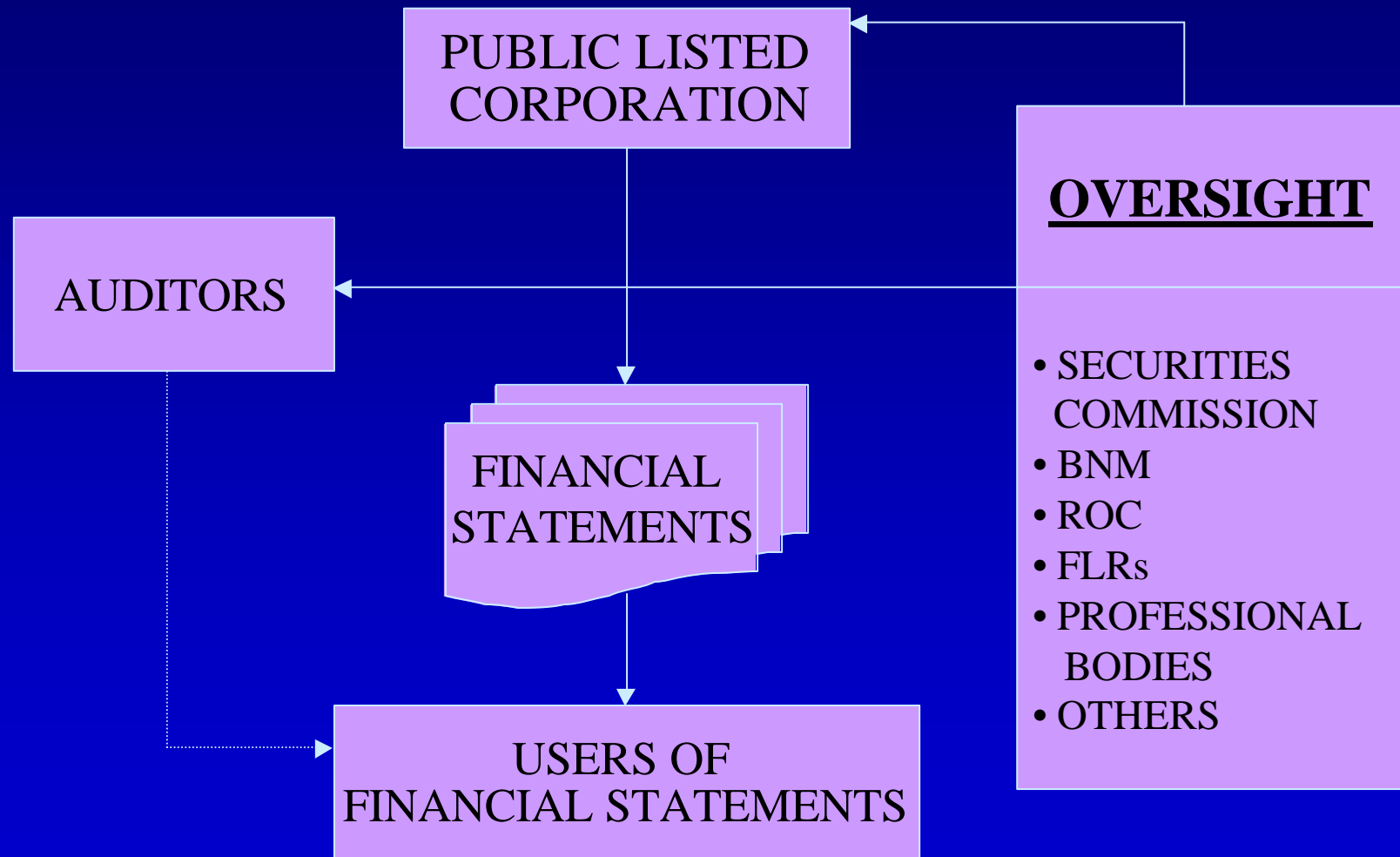


Outline

- The financial reporting process
- Compliance & Enforcement
- Role of SC in financial reporting
- Regulations under SIA 1983
- FRSC programme

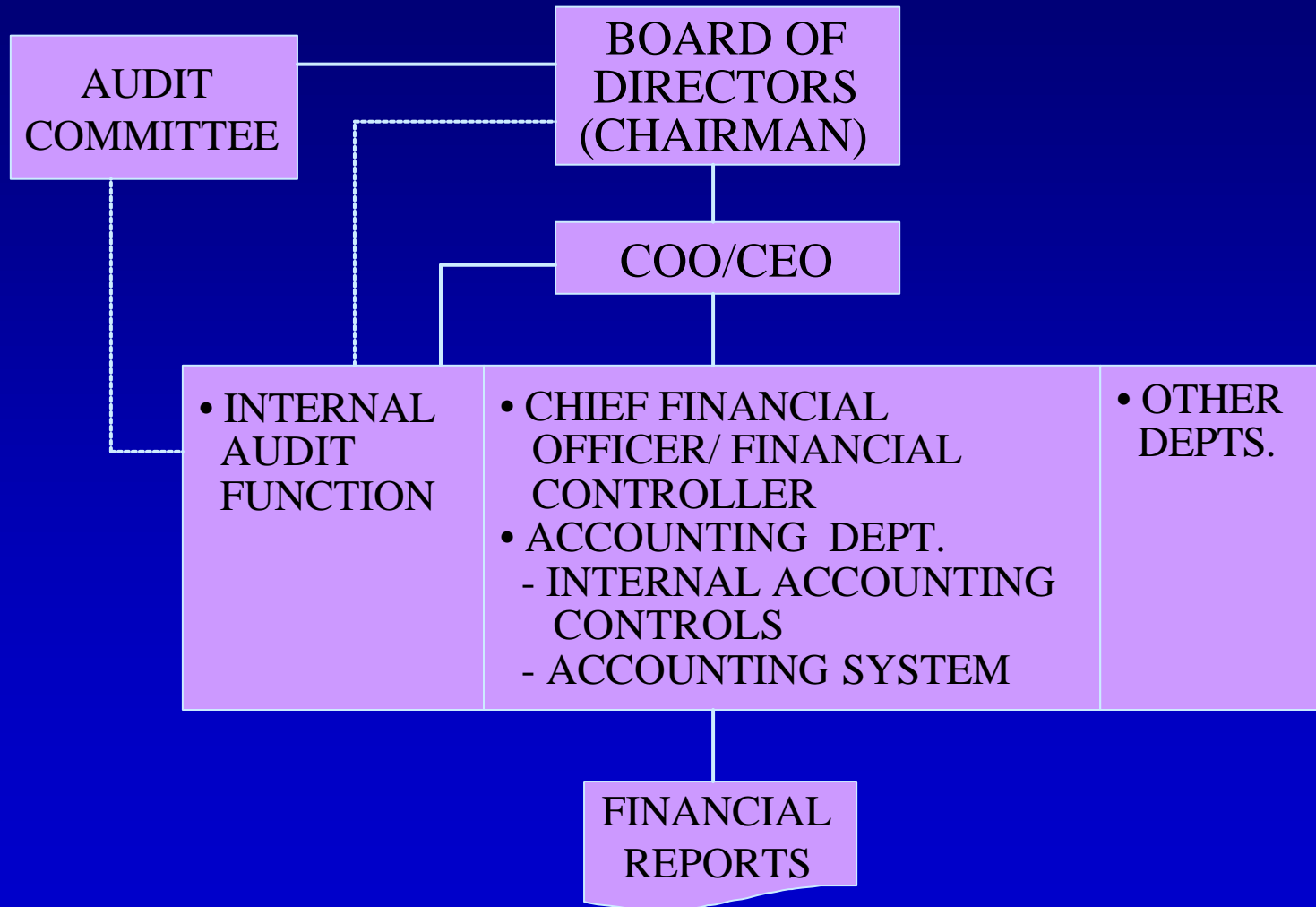


FINANCIAL REPORTING SYSTEM



LISTED CORPORATION

INTERNAL CONTROL ENVIRONMENT - "CORPORATE CULTURE"



Objectives of Financial Reporting

- Broad focus
 - to provide information that is useful in business and economic decisions
- To provide information how management has discharged its stewardship responsibility to owners for use of enterprise resources entrusted to it



Role of Accounting Standards

- Accounting standards provide proper and consistent accounting practice for benefit of preparers and auditors
- Quality and usefulness of financial statements are dependent on accounting standards applied to prepare them
- The FRA 1997 sets out
 - MASB's role to issue accounting standards
- Need for enforcement



Enforcement Mechanism

- “Where financial statements are required to be prepared or lodged under any law administered by the SC, BNM, or the ROC and approved accounting standards have been issued or adopted by the Board, such financial statements shall be deemed not to have complied with the requirement of such laws unless they have been prepared and are kept in accordance with the approved STDS”
FRA 1997 s 27



Enforcement Agencies

- BNM ▶ financial institutions and insurance cos
- SC ▶ listed corporations
- ROC ▶ other companies



Role of SC in Financial Reporting

- SC's role as protector of market place
- SC facilitates effective working of corporate reporting
 - surveillance & compliance programme established
- Objective of programme - users' needs for information
- Involving the examination of audited accounts/interim reports



Function and Scope of FRSCD

- To ensure plcs comply with accounting & reporting requirements in the preparation and presentation of financial statements
- Compliance with accounting & reporting requirements particularly relating to:
 - compliance with MASB standards
 - compliance with Co's Act 1965, Schedule 9
 - other reporting requirements



Programme Feature

- Review of:
 - Annual audited accounts/quarterly reports
- Reporting, recognition, measurement and disclosure issues require clarification for interim data to be examined
- Rigorous application of financial accounting & disclosure requirements in financial statements
- Programme driven both systematically & reactively



Regulations under SIA 1983

- S I (compliance with approved acc stds)
Regulations 1999
- Mandating compliance with approved accounting standards
- Applicable to financial statements for financial period ending on or after 30 June 1999



Regulatory Framework

- Directed to listed corporations, directors and chief executive officer
- Failure to comply an offence under the Act
- SC may direct those responsible to:
 - rectify relevant financial statements
 - provide relevant undertaking
 - make such announcement as deems fit



Surveillance & Compliance Programme

- Corporate compliance review
 - based on selected accounting standards
 - Comprehensive review on all aspects of financial accounting and reporting requirements
 - limited scope review based on issues identified



Review Focus

- Rigorous application of accounting standards
- Selection of standards based on specific critical financial reporting issues
 - issues of potential concern within industry, types of transactions or products
 - issue driven with risk and impact on market being important considerations



Identifying companies

- Selection of corporations for comprehensive review
 - analyst or media reports
 - complaints or queries
 - qualified audit reports
 - concerns arising from current reporting practices or market condition
- Sample number with appropriate coverage on all industry sectors



Enforcing compliance

- Letters issued requiring plcs to address
 - reporting deficiencies
 - matters for clarification
 - inadequate disclosure
- Issues preferably resolved by way of
 - exchange of letters
 - meetings held
 - voluntary agreement on remedial action



Scope & issues

- Companies reviewed - in 1999
 - No of corporate reviews conducted - 422
 - No of meetings held - 74
- Attendance of auditors encouraged
- Diversity in application of accounting standards
- Awareness of responsibility to provide useful information to be emphasised



Liaison

- Accounting bodies
- MASB
- KLSE
- FPLC
- MIA (Malaysian investors' assoc)



CONCLUSION

- SC through its FRSC programme aims to be active in its efforts to require adherence to financial accounting and reporting requirements through its enforcement actions
- Rigorous application of financial accounting and disclosure requirements
- Non-compliance an offence under the regulations of the Act

