Does Acra's action against Miyoshi's CEO signal a more proactive stance by the corporate regulator?

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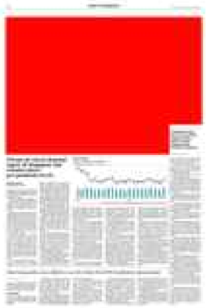

MARK TO MARKET

Does Acra's action against Miyoshi's CEO signal a more proactive stance by the corporate regulator?

The company's failure to recognise a large impairment loss came to light following a review under the financial reporting and surveillance programme

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WHILE scrolling through some local business news headlines earlier this month, I stumbled upon a report about the chief executive of Miyoshi having been fined S$22,400 by the state court after the company failed to recognise an impairment loss in its financial statements for the year to Aug 31, 2019.

This wasn't a company that would ordinarily interest me – it's a struggling metal components maker with a market capitalisation of less than S$5 million.

Yet, as my eyes glazed over and I started to scroll away, I noticed an interesting detail in the story: the problem came to light after the company's financial statements were reviewed by the Accounting and Corporate Regulatory Authority (Acra) under its Financial Reporting and Surveillance Programme (FRSP).

Acra said in a press release dated Jan 10 that Miyoshi should have recognised an impairment loss of S$16 million on its equity investment in a foreign company called Core Power (Fujian) New Energy Automobile.

An independent valuer had determined that significant impairment had occurred, Acra said. "Despite this, Miyoshi failed to recognise the S$16 million impairment loss on the investment and overstated the value of its net assets by the same amount. This resulted in Miyoshi group's FY2019 financial statements being materially misstated, providing an inaccurate picture of Miyoshi's financial health," the regulator added.

Why did this failure to recognise the impairment loss not come to light earlier? Why were there no repercussions until Acra took action?

Here's the thing: Miyoshi's auditor, BDO LLP, issued a qualified opinion on the company's financial statements for FY2019 because of uncertainty about the carrying value of its associate stake in Core Power.

The auditor said there was insufficient appropriate audit evidence in relation to the associate, and the management had not finalised the impairment assessment.

Miyoshi dealt with the matter in FY2020 – sort of. On Jul 30, 2020, an agreement was reached to amend the articles of association of Core Power such that Miyoshi no longer had the right to appoint a representative to its board. With no ability to participate in decision-making at Core Power, Miyoshi ceased recognising it as an associate.

Miyoshi reported a fair value loss of S$17.7 million on Core Power in FY2020, which reduced its carrying value to zero.

BDO LLP qualified its opinion on Miyoshi's financial statements for FY2020, though, stating that it was still unable to obtain sufficient appropriate audit evidence on Core Power.

Financial statement reviews

The matter might have ended there, had it not been for Acra.

On May 14, 2024, Miyoshi said its CEO Andrew Sin had been charged with an offence under Section 201(5) of the Companies Act, which requires directors to lay out financial statements at a company's annual general meeting that comply with prescribed accounting standards, and that provide a true and fair view of the company's financial position and performance.

Miyoshi said in the same announcement that it had been informed on Sep 27, 2021, that its FY2020 financial statements had been selected for review by Acra under the FRSP. To facilitate the review, Miyoshi provided Acra with documents and information as requested.

The objective of Acra's FRSP is to guide companies towards meeting the accounting standards, and increase investor confidence in the quality of financial reporting in Singapore.

Acra said in its most recent FRSP report, which was published in January 2023, that it had developed risk profiling models in order to focus its efforts on "higher-risk" financial statements.

During the period from Apr 1, 2020, to Mar 31, 2022, Acra concluded reviews of 33 sets of financial statements and found material non-compliance with accounting standards in 12 of them.

All in, there were 23 instances of material non-compliance with accounting standards, the majority of which had to do with business valuations or impairment assessments.

The objective of Acra's FRSP is to guide companies towards meeting the accounting standards, and increase investor confidence in the quality of financial reporting in Singapore PHOTO: ACRA

Acra said the root causes of companies running afoul of accounting standards fell into three categories: knowledge gaps, insufficient due diligence, and lack of action taken on issues raised by auditors.

Is Acra's action against Miyoshi's Sin a sign of what's to come? And will that help boost investor confidence in Singapore companies?

Acra said in its Jan 10 press release that it would not hesitate to take action against non-compliance with accounting standards. It also noted that failure to comply with Section 201(5) of the Companies Act now carries a penalty of up to S$250,000, up from S$50,000 for offences committed before Jun 30, 2023.

On the other hand, Miyoshi said on Jan 13 that its board had unanimously decided that Sin should remain CEO and an executive director of the company.

Sin is the single largest shareholder of Miyoshi. A filing on Jun 18, 2024, puts his direct stake at 21.5 per cent, and his deemed interest at 7.35 per cent.

More proactive Acra?

This column has previously argued that independent directors and external auditors are not all that effective in protecting minority investors, and that Singapore really needs a single law enforcement agency with the powers and resources to deal with the wide variety of enablers of corporate and financial market wrongdoing.

Indeed, Acra has worked alongside other agencies, such as the Monetary Authority of Singapore and the Commercial Affairs Department, in major investigations into companies such as Hyflux and Noble Group.

Locally listed companies that fall into Acra's crosshairs also tend to be caught up in multiple instances of misconduct. Notably, Acra concluded a case last year against Roger Poh, a former executive director of Allied Technologies (ATL), which had been in the news after S$33 million of its funds went missing in 2019.

On Jan 8, 2024, Poh was convicted for failing to act honestly in the discharge of his director duties in relation to ATL's acquisition of a 51 per cent stake in Activpass Holdings. Poh admitted that he had facilitated the transaction at a substantially higher price than would have been acceptable to the sellers.

Poh was sentenced to six months' imprisonment.

Still, a more aggressive stance by Acra alone could bring a positive new dimension to the regulatory landscape, in my view.

Acra gained the power to inspect and impose sanctions on public accounting entities following amendments to the Accountants Act in 2022, putting it in a stronger position to push for higher standards in the industry.

Combined with more timely and targeted reviews of financial statements, and appropriate penalties for errant directors, the regulator may help investors gain new confidence in the local market.