ABC SAMPLE PTE LTD

Industry: TECHNOLOGY
Country of Origin: SINGAPORE

Latest FY: 2019
Currency: USD
Date of Analysis: 31st July 2020

PREMIUM

AUDITSTRAT

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SUMMARY

OVERVIEW

There was a surge in sales but total costs moved in opposite direction along with cashflows and other liquidity ratios - which were operating at very alarmingly low levels. In other words, the rapid movement in sales did not result in an improved liquidity position.
Although the overall total expenditure growth was reasonable, there was a concern on how the marketing and entertainment expenditure was incurred.

In this regard, there was a large exposure relative to its total expenditure and sales. This was a major change from the previous year on nominal terms.

It was also noted that the firm's total liabilities grew at an alarming rate while shareholder funds experienced a major decline, rendering its balance sheet position weak and vulnerable to potential economic shocks due to Covid-19 remained unabated. From a liquidity perspective the company has been operating at a low level, despite the surge in sales. Coupled with the aforementioned borrowings, which were mainly short-term, there could be a liquidity crunch if the funding facilities cease, and their reliance on operating cashflows and equity funds are constrained.

Operational risks were high as the firm appeared to do collections and payables as well as inventory management, while profitability remained a challenge.

APPLICABLE STANDARDS

RISKS		INTERNATIONAL ACCOUNTING STANDARDS (IAS)*
	ENR	1, 2, 8, 12, 19, 20, 21, 23, 36, 37
	ENB	1, 2, 7, 8, 19, 21, 24, 37, 40
	COE	1, 2, 8, 12, 19, 21, 23, 24, 37, 40
	FIS	1, 2, 8, 12, 19, 20, 21, 23, 24, 36, 37, 40
	MNR	1, 2, 7, 8, 12, 19, 20, 21, 23, 24, 36, 37, 40
	INR	1, 2, 7, 8, 12, 19, 21, 23, 24, 37, 40
	ECR	1, 2, 7, 8, 12, 19, 21, 23, 24, 37, 40
	COR	1, 2, 7, 8, 12, 19, 20, 21, 24, 36, 37, 40
	FRR	1, 2, 8, 12, 19, 20, 21, 24, 36, 37, 40
	OPR	1, 2, 8, 12, 19, 20, 21, 23, 24, 36, 37, 40

RISKS		INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)*
	ENR	1, 15
	ENB	1, 5, 7, 9, 12, 15, 16
	COE	1, 7, 8, 9, 15, 37
	FIS	1, 5, 7, 8, 9, 15, 37
	MNR	1, 5, 7, 8, 9, 15, 37
	INR	1, 5, 7, 8, 9, 12, 15, 16, 37
	ECR	1, 5, 7, 8, 9, 12, 15, 16, 37
	COR	1, 5, 7, 8, 9, 12, 15, 16, 37
	FRR	1, 5, 8, 12, 15, 16, 37
	OPR	1, 7, 8, 9, 15, 37

(*) Refer to Appendix for the specific action steps for each of the highlighted Standards.

ENTITY BACKGROUND (ENB)

ENTITY BACKGROUND (ENB)

ENB SCORE

67.0%

ENB RISK ANALYSIS

❍ Historical Records

Code: ENB_P1-1001

Company incorporated on 20 Feb 2016 in Singapore. Financial year end as at December.

Audited report for previous years (FY 2016 to FY 2018) done by KYC were unqualified.

❍ Governance

Code: ENB_P1-1002

There is no records of the directors falling under the category of "Those Charged with Goverence (TCWG)".

There is no circumstances evidence to indicate any integrity issue with the key management.

No corporate compliance report issued by ACRA was furnished by the company.

❍ Characteristics of Company

Code: ENB_P1-1003

Company was cooperative during the audit process for the previous years.
Response time for clarification needs to be further improved between audit team and company.

Does not have a dedicated finance personnel as accounting work is mainly outsourced.

Company engages audit work on voluntary basis, not a requirement by ACRA, due to obligations to the various shareholders.

ENB FINANCIAL HIGHLIGHTS FOR FY 2019

Code: ENB_G1-2001

Out of 60 ratios in Entity Background Risk, 13 ratios were flagged to be of a concern.

The liquidity ratios were low compared to the industry, with the current ratio at 0.65x and quick ratio at 0.38x. The low current and quick ratios might indicate an inability for the company to meet short term liabilities obligations. With a negative cash growth at 99.75% and a low cash to sales ratio of 0.04%, against a relatively high sales growth by 42.53% - this might imply that the company was inefficient in cash management, no good leadership in the management of the business, and a weak internal policy and controls within the company.

Manpower costs took up more than half of its operating expenses at 57.73% and the employee cost per sales was at 19.11%. Even though the ratio was reasonable, do review the manpower costs against the number of employees within the company to ensure there were no over the norm salary payment to any individuals that may be lead to integrity issue on the company.

ENGAGEMENT RISK (ENR)

ENGAGEMENT RISK (ENR)

ENR SCORE
43.4%

OVERALL RISKS ASSOCIATED WITH ENGAGEMENT RISK (I)

Was this company an existing clientele?

YES

Ashley was the assigned auditor for FY 2016 to FY 2018. The audit manager was Celine.

The audit fee for this client has been consistent and comparable to other audit companies and is based on pure professional fees.

There are prior experience in auditing companies of the same industry.

Code: ENR_P1-1001

ACTION STEPS:

- *To conduct a review on any potential conflict of interest between auditor and company.*
- *Propose to assign a new auditor and audit manager for this company.*
- *Ensure there are sufficient resources within the team for rotation.*

Code: ENR_P1-4001

Is the business model of the company straightforward?

SOMEWHAT

There is no recent change in the nature of business based on ACRA's records.

Company's revenue are mainly derived by appointing related companies as distributors of its services.

There is no recent change in the key management. Clear ultimate beneficial owner noted with sign off by the company.

Code: ENR_P1-1002

ACTION STEPS:

- *Obtain a clear corporate and organisation structure from the company.*
- *Interview the key management and understand the rationale and purpose of such structure.*
- *Conduct a litmus test on the receivables of the books to determine the reasonableness of transaction.*

Code: ENR_P1-4002

Are the auditor and employees independent of the company being audited?

YES

Audit team had declared that neither they nor their family members have any dealings with the company, outside the audit scope of work.

Both parties are aware of the audit objective and scope of work required.

There are no ongoing or past legal disputes between the audit team and the company.

Code: ENR_P1-1003

ACTION STEPS:

- *Ensure proper filing of the declaration signed by the audit team on the disclosure.*
- *Conduct a basic legal case check on the key management.*

Code: ENR_P1-4003

ENGAGEMENT RISK (ENR)

OVERALL RISKS ASSOCIATED WITH ENGAGEMENT RISK (II)

Does the company have a high level of related party transactions (RPT)?

YES

High level of RPT noted as its customers, forming 68% of its overall sales in current year.

Found via common shareholding between one shareholder and another company owned by the same shareholder.

Receivables remained high for the related parties amongst all creditors at 80% of total receivables.

Code: ENR_P1-1004

ACTION STEPS:

- *To interview the management and understand the business structure - on the need for the transaction.*
- *Request to review contracts between RP and 3rd party contracts for the purpose of delivering.*
- *Ascertain if proper transfer pricing policy is in place for the sale of its services.*

Code: ENR_P1-4004

Is there a concern on the integrity of the company and/or management?

NO

There is no recent change in the nature of business based on ACRA's records.

Company's revenue are mainly derived by appointing related companies as distributors of its services.

There is no recent change in the key management. Clear ultimate beneficial owner noted with sign off by the company.

Code: ENR_P1-1005

ACTION STEPS:

- *Obtain a schedule and AGM notes on the meetings done with the board.*
- *Run an individual background check on the key management and company to determine any pending law suits.*
- *Request for the management's resume to review and determine the compatibility of role.*

Code: ENR_P1-4005

Proper quality checks on the overall business in place?

YES

Management are hands-on in the running of the business, with relevant contingency plans in place, should the situation arises for a need.

Quarterly periodic reviews are set aside on budget, KPI and implementation to identify and address the gaps, if any.

Proper CRM in place for monitoring.

Code: ENR_P1-1006

ACTION STEPS:

- *Do a random sampling on the review reports and check for sign offs by the management.*
- *Request for CRM report to conduct random check on case monitoring mechanism.*

Code: ENR_P1-4006

ENGAGEMENT RISK (ENR)

ENR FINANCIAL HIGHLIGHTS FOR FY 2019

Code: ENR_G2-2001

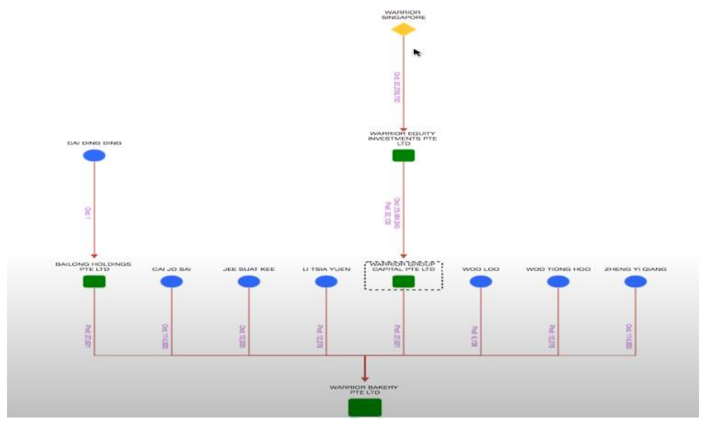
Out of 60 ratios in Engagement Risk, 24 ratios were flagged to be of a concern.

Despite experiencing a steep increment and an increase in its operating cost by 32.56%, its cash on hand recorded was only nominal at 0.04% of its sales. Cash as a component of current assets and total assets were low, standing at only 0.05% and 0.02% respectively. The entertainment and marketing promotion costs had grown by an alarming 136.25% and 249.22% respectively over the period and caused a negative impact of 212.38% in its net margin. The cash growth was negative at 99.75%. Profit margin posed as a concern too as it registered a loss of 30.64% even with a relatively high growth in sales.

Before embarking on an engagement with the client, you should review the company's sales, cost and cash receivables patterns as there seems to be some form of anomalies amongst variables such as the net profit (-30.64%) against the growth in sales (42.53%) and the operating costs. Trade receivables is low at 6.97% but yet the cash to sales ratio is only at 0.04%. It is also recommended to review the reasonability of the dividends paid out as the retained earnings to sales ratio is at -74.42% despite of a small loss marginof -30.64%.

COMPANY LEVEL

Code: ENR_P2-2001 | ENR_P2-3001



WARRIOR BAKERY PTE LTD has a total of 8 shareholders as of the date of check. 3 shareholders with ordinary shares, totalling to 240,000 shares. The balance 5 shareholders hold a total of 85,932 preference shares

2 out of 8 shareholders are corporate entities holding a total of 55,242 preference shares, which consitutes to 64.3% of the total preference shares issued.

The majority individual shareholders are CAI JO SAI (35.0%) and ZHENG YI QIANG (35.0%).

The 2nd group of majority shareholders are the corporates shareholderes at 8.6% each for BAILONG HOLDINGS PTE LTD and WARRIOR GROUP CAPITAL PTE LTD.

One of the shareholders in BAILONG HOLDINGS PTE LTD is CAI DING DING, who may be related to CAI JO SAI based on the common surname. The auditor will need to validate the assumption and determine if there is a related party transaction.

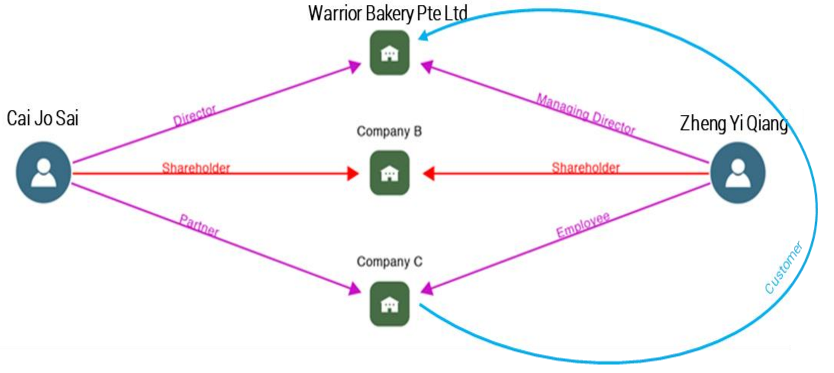
It seems to reflect that WARRIOR BAKERY PTE LTD is part of a group of companies under WARRIOR SINGAPORE. The check has reflected an ownership of WARRIOR SINGAPORE, incorporated out of Singapore to be one of the shareholders of WARRIOR EQUITY INVESTMENTS PTE LTD, who is the shareholder of WARRIOR GROUP CAPITAL PTE LTD and this company is a majority corporate shareholder of WARRIOR BAKERY PTE LTD.

ENGAGEMENT RISK (ENR)

DIRECTOR LEVEL

Code: ENR_P3-1001 | ENR_P3-4001

Name of Individual:
Cai Jo Sai
Position:
Shareholder / Director
Shareholding %:
35.0%
Year of Appointment:
2016



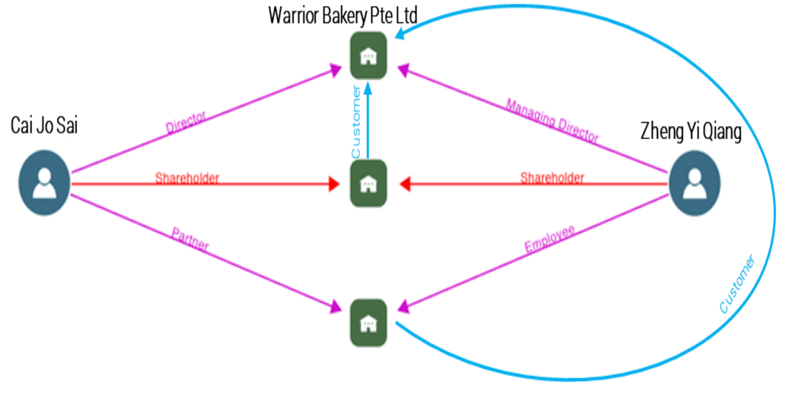
CAI JO SAI is currently the director and shareholder of the company. He is the Chief Operations Officer and is in charge of the operations and manages the client relationship.

Besides being a shareholder in the current company, he is also a shareholder and a partner respectively for 2 other companies - whom are also the customers of the auditee company. As per highlighted in the Engagement Risk module, due to the business model of the company, it is inevitable for transaction of this nature to occur.

As the auditor of the company, you are required to conduct a test of reasonableness on the exposure of such transactions and whether it is of a material concern.

Code: ENR_P3-1002 | ENR_P3-4002

Name of Individual:
Zheng Yi Qiang
Position:
Shareholder / MD
Shareholding %:
35.0%
Year of Appointment:
2016



ZHENG YI QIANG is the managing director and shareholder of the company. He is the Chief Executive Officer and he oversees the entire company and deploys the team to execute the action plans based on the strategy and direction set for the company.

He is a shareholder in another company - whom is a customer of the auditee company. In another related party transaction highlighted, ZHENG YI QIANG is an existing employee of a company, who is a customer of the auditee company.

As the auditor of the company, you are required to conduct a test of reasonableness on the exposure of such transactions and whether it is of a material concern. You should also check with ZHENG YI QIANG to enquire if he had provided a disclosure to his current employer on his involvement with the auditee company.

ECONOMIC RISK (ECR)

ECONOMIC RISK (ECR)

ECR SCORE

44.9%

GLOBAL ECONOMIC RISK ANALYSIS

Code: ECR_P1-1001

The global bakery products market reached a value of almost USD 507.38 billion in the year 2020. The bakery products industry is further expected to grow at a CAGR of 2.5% between 2021 and 2026 to reach a value of almost USD 574.05 billion by 2026.

The global bakery products market is driven by the inflating disposable incomes of the consumers in the emerging nations, with higher standards of living and shifting lifestyles owing to cultural changes and rising emerging markets. The bakery industry represents 10% of China's food and beverage market, which is being driven by the increasing demand from Tier 1 cities where customers are inclined to accept western cuisines, including baking, thus accelerating the bakery products market growth. The market is also being aided by new product launches to cater to consumer demands. The rising consumption of processed products and the shift taking place towards convenient food and beverage products is aiding the market growth. The rising demand for frozen bakery products owing to their convenience and prolonged shelf life is supporting the market for bakery products. Consumers are also experimenting with new tastes, products, and flavours, propelling the market growth further. Low-calorie bakery products are also rising in demand, thus, accelerating the market further. Hectic lifestyles and rapid urbanisation have made consumers lookout for convenient and ready-to-eat products, making bakery products market prosperous.

The growing awareness of the health concerns associated with the ingredients used in bakery products is propelling the market further. Consumers are getting conscious about consuming healthier baked goods, which are ideally, gluten-free, low in carbs, and have high fibre content. The growth of online bakery platforms has provided a significant boost to the growth of the market. The rising demand for diversified products such as organic and gluten-free products will invigorate the market growth in the coming years.

Source:
https://www.mti.gov.sg/-/media/MTI/Resources/Economic-Survey-of-Singapore/2020/Economic-Survey-of-Singapore-Third-Quarter-2020/PR_3Q20.pdf

LOCAL ECONOMIC RISK ANALYSIS

Code: ECR_P1-1002

The Singapore economy expanded by 9.2 per cent on a quarter-on-quarter seasonally-adjusted basis in the third quarter, a turnaround from the 13.2 per cent contraction in the second quarter. On a year-on-year basis, the economy contracted by 5.8 per cent, moderating from the 13.3 per cent contraction recorded in the previous quarter. The improved performance of the Singapore economy came on the back of the phased resumption of activities in the third quarter following the Circuit Breaker that was implemented from 7 April to 1 June 2020, as well as the rebound in activity in major economies during the quarter as they emerged from their lockdowns.

The accommodation & food services sector contracted by 24.0 per cent year-on-year, improving from the 41.8 per cent contraction in the preceding quarter. Within the sector, the accommodation segment shrank in line with the continued plunge in international visitor arrivals, while the food services segment contracted as sales volumes across all sub-segments such as restaurants declined. On a quarter-on-quarter seasonally-adjusted basis, the accommodation & food services sector grew by 32.4 per cent, rebounding from the 23.3 per cent decline in the second quarter.

For 2021, the major advanced and developing economies are expected to recover from the massive economic disruptions caused by COVID-19 and see a rebound in their GDP from the low base this year. However, the path to recovery is expected to be slow and uneven across economies, with many economies not likely to return to pre-COVID levels until end-2021.

Source:
https://www.mti.gov.sg/-/media/MTI/Resources/Economic-Survey-of-Singapore/2020/Economic-Survey-of-Singapore-Third-Quarter-2020/PR_3Q20.pdf

ECONOMIC RISK (ECR)

ECR RISK ANALYSIS

Sector stability of the economy

Competitive

Code: ECR_P2-1001

Economic fluctuation

Seasonal

Code: ECR_P2-1002

Over-reliance on new or current market trend

No

Code: ECR_P2-1003

Competition threat mainly local or overseas?

Both

Code: ECR_P2-1004

Market Penetration

Low

Code: ECR_P2-1005

Ability to expand beyond local market

Low

Code: ECR_P2-1006

ECR FINANCIAL HIGHLIGHTS FOR FY 2019

Code: ECR_G2-2001 | ECR_G2-2001
ECR_G2-3001 | ECR_G2-4001

The company appears to be badly affected by the economy conditions - based on the company's financials. Even though the cashflow from operations was positive at $7,120,983, however the free cashflow / sales was negative at 0.54%. The company was also unable to generate sufficient returns from its assets, with the return on assets ratio at -17.34%. The company had relied heavily on cashflow from financing to sustain its operations as it took up an additional loan from its inter-company, increasing its loan exposure with the related company by 1202.71% compared to the previous period. The overall gearing rocketed to 910.39% - this would be an issue for the company if the economy continues to worsen as the current equity position is unable to cover the loan obligations. Overall liability grew by 104.40%, whereas equity declined by 79.11%, mainly due to the high dividend payout to the shareholders from its retained earnings. Retained earnings declined by 492.65%.

Additional financing was taken up with the bank and its short-term borrowings increased by 112.63%. Economic risk increased within the company when there is change in interest rates as the company may face difficulties in meeting its loan obligations. This may become more apparent for this company as the loans were mainly short-term with less than 12 months repayment cycle. The company relied heavily for short term financing as 68.47% of its total loan exposure are under current liabiliites with less than 12 months repayment cycle.

Out of a total of 60 indicators associated with economic risks that impact the company's financials, around 29 (48.33%) are material.

You need to refer to the economic news and outlook on how these external factors affect the company's organisational structure and management personnel; the sources of funding of the company's operations and investment activities, including the company's capital structure, noncapital funding (e.g., subordinated debt or dependencies on supplier financing), and other debt instruments.

INDUSTRY RISK (INR)

INDUSTRY RISK (INR)

INR SCORE

44.9%

COR RISK ANALYSIS

Industry Outlook

Sunset	Stable	Sunrise

Code: ECR_P2-1001

Market Positioning

Leader	Follower
Challenger	Nicher

Code: ECR_P2-1002

Disruptive Level

High	Medium	Low

Code: ECR_P2-1003

Growth Opportunity

Downstream	Horizontal	Upstream

Code: ECR_P2-1004

Product/Service Differentiation

Weak	Strong	Neutral

Code: ECR_P2-1005

Industry Performance Correlation

Low	Independent	High

Code: ECR_P2-1006

INR FINANCIAL HIGHLIGHTS FOR FY 2019

Code: INR_G1-1001 | INR_G1-2001
INR_G1-3001 | INR_G1-4001

Compliance risks may occur when there are volatilities arising from rapid changes in financial variables.

Total liability growth grew by 104.4%, whereas equity had declined by 79.1%. The significant increment in its short-term loan (112.63%) did not seem to correspond to the growth in sales as it only grew by 42.53%. It seems that the additional loan obtained was not utilised to grow the company organically but to fund the huge increment in the expenses. Entertainment and marketing/promotion costs had notably increased by 136.3% and 249.2% respectively. Sales may be boosted by spending on marketing and promotion that will lead to deal conversions or from existing rollover contracts or by introduction and marketing from partners, however, this was not reflected in this case. There was an astounding increment of an inter-company loan by 1202.71% that needs to be investigated for the purpose and the usage of loan amount as there was no significant increase in the cash at bank. The cash to total assets was at 0.02%.

Negative margin change of 30.64% was reported for the period despite of a strong growth in sales (42.53%). You should consider to probe into the classification and recognisation of the expenses and sales of the business were in line with the terms listed in IAS. In addition, its retained earnings/sales was reported at -74.42%. This was further impacted due to the astounding dividend payout to its directors, where the dividend/profit ratio as at -250.05%. This ratio is out of the ordinary and needs to be evaluated on the basis for the payout and if such payout was deemed acceptable and approved by the Board.

Out of a total of 102 indicators linked to compliance risks, the system flags around 54 (52.94%) that needs to be evaluated further.

Based on the issues identified above, you may want to refer to the highlighted standards and examine why such risks exist and predict the probability of events occurring from such risks.

COMPLIANCE RISK (COR)

COMPLIANCE RISK (COR)

COR SCORE

40.7%

COR RISK ANALYSIS

Regulatory Compliance

MET

AGM and filings are filed and up to date.

Statutory filings with IRAS and ACRA are completed and filed up to date.

Code: COR_P1-1001

Accounting Compliance

NOT MET

Cash payable transactions are minimal but does not come with supporting documents.

Cash on hand amount does not display any signs of anomaly.

Code: COR_P1-1002

Industry Compliance

MET

Company adopts and complies with NOCLAR (Non Compliance with Laws and Regulations).

Company has the relevant licenses obtained to operate in the country.

Code: COR_P1-1003

COR FINANCIAL HIGHLIGHTS FOR FY 2019

Code: COR_G1-2001 | COR_G1- 3001 | COR_G1- 4001

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DIRECTOR RISK (DIR)

DIRECTOR RISK (DIR)

DIR SCORE

62.1%

DIR RISK ANALYSIS

❍ Are there any major concerns on the background of the key management?

NO

Code: MRR_P1-1001

There is no signs of any historical legal issues on the management. The management is not a discharged bankrupt. There is no major areas of concern on the background of the management. Management needs to cover all departments within the company. Management has a strong background in the current role played in the company. There are more than 1 key decision makers in the company. Company is reliant on the current management. Key management remains constant in the past 3 years.

❍ Does the management have any relationship with suppliers and/or customers?

NO

Code: MRR_P1-1002

Management does not have any existing relationship with the suppliers and/or customers. Proper declaration made by the management on the relationship with the suppliers and/or customers. Key management are self represented. Key management are based locally.

❍ Are there potential risk for Management to act for their own benefits in terms of remuneration?

YES

Code: MRR_P1-1003

Remuneration for management is clearly stated with fixed base amount. Management gets a commission for every commercialised deal brought in directly. Bonus payout for the management is dependant on the sales brought in. Management gets a share of the nett profit of the company at the end of each financial year.

MNR FINANCIAL HIGHLIGHTS FOR FY 2019

Code: MRR_G1-2001 | MRR_G1- 3001 | MRR_G1- 4001

Out of 64 ratios in Director Risk, 28 ratios were flagged to be of a concern.

Deeply impacted by the dividend payout of $7,000,000, retained earnings in the company declined by 492.65%. The amount of dividend paid out was not proportionate to the returns of the company at -30.64%. The integrity of the directors might be of a concern if there is no appropriate reasoning to support the large payout. The property investment had grown by 88.89% and this may indicate that the directors were over aggressive in their investment strategies. You should be alert when you are evaluating and reviewing the documentation - be on a look out for any traces of the investments being held in trust by the directors or related parties. Find out if the investments were subsequently adjusted for impairment.

Prepayment grew exponentially by1781.63% and it may indicate a possible unauthorised fund withdrawal from the company. The integrity of the directors may be challenged if the directors do not have an idea what were the prepayments made for and if there is an actual need to make such a transaction. You should interview the directors and find out the reasons behind such transactions and assessed their replies against the understanding of the company's business model and industry to ascertain any potential concerns.

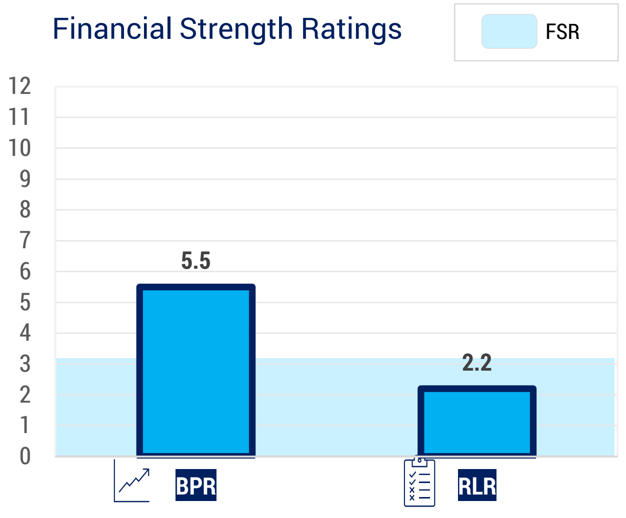
FINANCIAL STATEMENT RISK (FIS)

FINANCIAL STATEMENT RISK (FIS)

Overall Financial Strength Rating (FSR)

3.2

Financial Strength Ratings



LEGEND

High Financial Strength *Greater than or equal to 10, less than or equal to 12*	
Above Average Financial Strength *Greater than or equal to 7, less than 10*	
Average Financial Strength *Greater than or equal to 4, less than 7*	
Low Financial Strength *Less than 4, greater than or equal to 1*	

BUSINESS PERFORMANCE RATING (BPR)

5.5

The firm experienced a fairly high level of revenue growth - with an increasing demand for its goods and services. The firm's operating costs have risen significantly. It could be facing challenges to contain the costs arising from industry-wide drivers. It was significantly much costlier to service revenue operations compared to the previous year - and may signify fundamental challenges in its business model and cost structure. Profit levels remained modest relative to sales. May not be adequately attractive for shareholders who may demand for higher margins. Major deterioration of profit margins - competitive environment for the firm's products and services may have heightened.

RISK & LIABILITY RATING (RLR)

2.2

Fairly high reliance to short-term creditors/financing relative to asset base - high dependency on creditor financing in the short-term. Extremely weak solvency position with very high exposure to liabilities - high risk balance sheet profile for the period. Shareholder funds were highly inadequate to cover all of the firm's obligations. The firm's liability growth has been fairly aggressive as compared with its sales during the period. Some degree of reliance on gearing. There was increasing demand for the goods and services of the firm which resulted in a fairly high level of revenue growth. The very good performance of the firm was as a result of an effective pricing model and appropriate market strategies during the period.

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FINANCIAL STATEMENT RISK (FIS)

LEDGER ANALYSIS (EXCERPTS) (I)

*Currency used is in **USD** unless specified otherwise.*

COS Group	Ledger	Operating Cost	FY 2019	FY 2018	FY 2017	Variance (2019 vs 2018)	Variance (2018 vs 2017)
Project	6100-101	Material	1,000,000	750,000	400,000	250,000	350,000
Project	6100-102	Contract Wages	800,000	500,000	400,000	300,000	100,000
Project	6100-103	FX loss	0	87,000	825,000	-87,000	-738,000
Trading	6200-101	Goods	6,300,000	3,000,000	3,800,000	3,300,000	-800,000
Trading	6200-102	Transportation	300,000	598,000	100,000	-298,000	498,000
Trading	6200-103	Product Warranty	205,839	258,586	254,400	-52,747	4,186
Services	6300-101	Outsource services	304,883	956	1,002	303,927	-46
	Total Per Ledger		8,910,722	5,194,542	5,780,402	3,716,180	-585,860

There are 3 types of COS Group within the company, namely Project, Trading and Services. Total COS for FY 2019 stood at $8,910,722 and increased by $3,716,180 (71.54%). Services had the highest change in variance compared to the previous period at $303,927 (31791.48%), followed by Trading at $2,949,253 (76.47%).

Within Project, Goods had the highest variance at -100.00%, followed by Transportation at 60.00%. Within Trading, Goods had the highest variance at 110.00%, followed by Transportation at -49.83%.

For Material, a debit note being quantity adjustment for SKU771 in 2019. Transportation cost had two debit note of ($0.5M) being provision adjustment for SKU800 in 2018 & 2019.

AR Group	Sub - Ledger	Customer	FY 2019	FY 2018	FY 2017	Variance (2019 vs 2018)	Variance (2018 vs 2017)
Project	3100-001	ABC P/L	0	0	0	0	0
Project	3100-002	DEF P/L	0	0	0	0	0
Project	3100-003	GHI P/L	0	0	0	0	0
Trading	3200-101	Alpha P/L	400,000	500,000	500,000	-100,000	0
Trading	3200-102	Beta P/L	600,000	800,000	800,000	-200,000	0
Trading	3200-103	White P/L	1,500,000	2,000,000	2,000,000	-500,000	0
Trading	3200-104	Black P/L	1,358,000	306,622	306,622	1,051,378	0
Services	3300-101	XYZ P/L	0	0	0	0	0
	Total Per Ledger		3,858,000	3,606,622	3,606,622	251,378	0

There are 3 types of AR Group within the company, namely Project, Trading and Services. Total AR for FY 2019 stood at $3,858,000 and increased by $251,378 (6.97%). There was no changes for both Project and Services Group.

Within Trading, Black P/L had the highest variance at 342.89%, followed by Beta P/L at -25.00%.

Alpha P/L had an outstanding balance of $400,000. This balance remained outstanding since 2018 despite two CN ($0.6M) being commission for SKU 120 & 230, which was issued to offset against the original billed amount of $1.6M.

Beta P/L had an outstanding balance of $600,000. This balance remained outstanding since 2018 despite two CN ($0.4M) being discount for SKU 990, billed in 2018.

White P/L and Black P/L had an outstanding balance of $1,500,000 and $1,358,000 respectively.

FINANCIAL STATEMENT RISK (FIS)

LEDGER ANALYSIS (EXCERPTS) (II)

*Currency used is in **USD** unless specified otherwise.*

Group	Sub Ledger	Sub Group	FY 2019	FY 2018	FY 2017	Variance (2019 vs 2018)	Variance (2018 vs 2017)
Revenue	5100	Project	3,200,000	955,000	1,250,000	2,245,000	-295,000
	5200	Trading	5,500,500	5,359,430	4,616,000	141,070	743,430
	5300	Services	435,546	95,600	100,200	339,946	-4,600
		Total Revenue	9,136,046	6,410,030	5,966,200	2,726,016	443,830
COS	6100	Project	1,800,000	1,337,000	1,625,000	463,000	-288,000
	6200	Trading	6,805,839	3,856,586	4,154,400	2,949,253	-297,814
	6300	Services	304,883	956	1,002	303,927	-46
		Total COS	8,910,722	5,194,542	5,780,402	3,716,180	-585,860
GP		Project	1,400,000	-382,000	-375,000	1,782,000	-7,000
		Trading	-1,305,339	1,502,844	461,600	-2,808,183	1,041,244
		Services	130,664	94,644	99,198	36,020	-4,554
		Total GP	225,325	1,215,488	185,798	-990,163	1,029,690

There are 3 types of revenue model within the company, namely Project, Trading and Services. Total revenue for FY 2019 stood at $9,136,046, an improvement by $2,726,016 (42.53%). Trading contributed the highest revenue at $5,500,500 (60.21%), followed by Project at $3,200,000 (35.03%) and lastly, Services at $435,546 (4.77%).

The highest COS required to generate the respective revenue sub group came from Trading where it constituted 74.49% of total revenue, whereas the other 2 verticles' COS were below 20% of its total revenue.Services did grew exponentially at 31791.48% but yet it was not an area of concern as the cost was minimal in the previous period.

As a result, at the GP level, the revenue model - Trading was making a loss of -14.29%, whereas Project and Services were making a nominal GP of 15.32% and 1.43% respectively.

Group	Sub Ledger	Manpower Costs	FY 2019	FY 2018	FY 2017	Variance (2019 vs 2018)	Variance (2018 vs 2017)
Director Salary & Benefits	9000-101	Salaries & Bonus	639,331	503,831	478,639	135,500	25,192
	9000-102	CPF & SDL	86,315	91,435	86,863	-5,120	4,572
	9000-103	Benefits	71,978	143,955	141,076	-71,978	2,879
		Total Costs	797,624	739,221	706,579	58,402	32,642
Employees Salary & Benefits	9000-120	Salaries & Bonus	796,086	1,382,595	1,354,943	-586,509	27,652
	9000-121	CPF & SDL	98,189	195,556	191,645	-97,367	3,911
	9000-122	Benefits	35,437	70,875	70,875	-35,437	0
		Total Costs	929,712	1,649,026	1,617,463	-719,314	31,563
		Grand Total Costs	1,727,336	2,388,247	2,324,041	-660,911	64,205

Despite a nominal increase in the manpower costs expensed for the directors at $58,402, the overall manpower costs had declined by 27.67% due to the steep decline in the manpower costs expensed for the employees. The employees cost had declined by 43.62%, from $1,649,026 to $929,712 in FY 2019.

The main cause for the decline in employee costs was due to a steep reduction in the benefits by 50.00% as compared to the previous period. On the other hand, despite a reduction in the benefits to the directors by 50.00%, the salaries and bonuses for the directors had gone up by 26.89% in comparison to the employees.

A review should be done on the validity of such increments as revenue had grew by 42.53% and yet overall manpower costs had been severely reduced.

FINANCIAL STATEMENT RISK (FIS)

LEDGER ANALYSIS (EXCERPTS) (III)

*Currency used is in **USD** unless specified otherwise.*

Group	Sub Ledger	Operation Costs	FY 2019	FY 2018	FY 2017	Variance (2019 vs 2018)	Variance (2018 vs 2017)
Facilities & Mgt	9001-001	Building Upkeep: A/C; Security; Housekeeping; etc	9,450	9,450	9,167	0	284
	9001-002	Rental	48,000	48,000	46,560	0	1,440
	9001-003	Office upkeep	9,100	9,100	8,827	0	273
		Total Facilities & Mgt Cost	66,550	66,550	64,554	0	1,997
Business Devt	9001-021	Entertainment	346,788	146,788	142,384	200,000	4,404
	9001-022	Sales Commission	381,812	81,812	79,358	300,000	2,454
	9001-023	Gifts & Promotional Materials	23,569	23,569	22,862	0	707
	9001-024	Local Transport	8,050	12,125	11,762	-4,075	364
	9001-025	Overseas Transport	2,439	2,439	2,366	0	73
	9001-026	Overseas Accommodation	4,405	4,405	4,273	0	132
	9001-027	Tender Fees	100	100	97	0	132
		Total Business Dev Cost	767,163	271,238	263,101	495,925	8,266
IT	9001-004	IT Network Maintenance	2,040	2,040	1,979	0	61
	9001-005	IT Hardware Supplies	2,118	2,118	2,054	0	64
	9001-006	Software Licence Fees	1,100	1,100	1,067	0	33
	9001-007	Website Hosting, Maintenance & Licence (Local)	588	588	570	0	18
		Total IT Cost	5,846	5,846	5,671	0	175
Finance Cost	9001-028	Loan Interest	116,251	81,376	78,934	34,875	2,441
	9001-029	Bank Charges	498	498	483	0	15
		Total Finance Cost	116,749	81,874	79,417	34,875	2,456
Admin	9001-008	Postage & Courier Services	615	615	597	0	18
	9001-009	Fines & Penalties	100	100	97	0	3
	9001-010	Donation & Sponsorship Fees	14,000	14,000	13,580	0	420
	9001-011	Depreciation	196,541	196,541	190,645	0	5,896
	9001-012	Office Equip Maintenance	284	284	275	0	9
	9001-013	Printing & Printer Rental	21,551	21,551	20,905	0	647
	9001-014	Telecommunications	25,749	25,749	24,977	0	772
	9001-015	Local Transport	15,989	22,453	21,780	-6,464	674
	9001-016	Food & Beverage	10,773	10,773	10,449	0	323
	9001-017	Professional Fees	43,375	57,001	55,291	-13,626	1,710
	9001-018	Tax Fees & Charges	323	323	313	0	10
	9001-019	Registration & Renewal Fees	675	675	655	0	20
	9001-020	Others	11,154	19,932	655	-8,779	19,277
		Total Admin Cost	341,129	369,997	340,218	-28,868	29,779
		Grand Total Costs	1,297,437	795,505	752,961	501,932	42,674

There are 5 categories of operating costs within the company, namely Facilities & Mgt, Business Devt, IT, Finance Cost and Admin. Total operating costs for FY 2019 stood at $1,297,437, an increment by 63.10% from the previous period. Of which, the highest cost was spent on Business Devt at 59.13%, followed by Admin at 26.29%. These 2 expenses contributed to 85.42% of the total expenses.

Within Business Devt, the highest expense was made for Sales Commission where it constituted 29.43% of total operating costs. This expense under Business Devt also increased the most by 366.69% compared to the previous period. This seems to be in line with the increment in revenue for the period.

As for the expenses under Admin, the highest expense was due to Depreciation at 15.15% of total operating costs.

FINANCIAL STATEMENT RISK (FIS)

TRANSACTION ANALYSIS (I)

*Currency used is in **USD** unless specified otherwise.*

Legend: Potential risk. Require immediate attention. It looks generally ok. Healthy.

Sales Growth

42.5%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

Sales grew steeply by 42.5% compared to the previous period. However cash on hand does not seem to commensurate with the movement in sales.

You should review the company's sales, cost and cash receivables patterns to determine any peculiar transactions. This ratio should also be investigated together with its receivables, especially any related party transactions.

Cost of Sales Growth

71.5%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

The cost of sales growth of 71.5% was higher than the sales growth for the current year, this led to a decline in gross profit margin by 81.5%.

You will need to assess the cost structure of the company to check for any change in the business model that led to an increase in the cost of delivery of its services.

Gross Profit Growth

-81.5%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

Comparably, the company's gross profit for the period declined by 81.5%.

To determine the cause of the decline in the gross profit, you will have to analyse the nature on the cost of sales, as well as the sales recognition done at the company.

Manpower Cost Growth

13.7%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

Manpower costs took up more than half of its operating expenses at 57.1% and the employee cost per sales was at 18.9%.

The ratio seems to be of a concern and would need to do a review on the manpower costs against the number of employees within the company to ensure there were no over the norm salary payment to any individuals that may be lead to integrity issue on the company.

Marketing & Distribution Cost Growth

249.2%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

Cost had grew by an alarming rate of 249.2% over the period - caused a negative impact of 30.6% in its profit margin before tax. It seemed to appear that it was due to the need to support in the surge of its sales by 42.5%.

You will need to verify and review the sales agreements against the expenses submitted. There is also a need to determine if there is a proper control in the expenses approval process.

FINANCIAL STATEMENT RISK (FIS)

TRANSACTION ANALYSIS (II)

*Currency used is in **USD** unless specified otherwise.*

Legend: Potential risk. Require immediate attention. It looks generally ok. Healthy.

Short-Term Loan Growth

112.63%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

The significant increment in its short-term loan (112.63%) did not seem to correspond to the growth in sales as it only grew by 42.53%. It seems that the additional loan obtained was not utilised to grow the company organically but to fund the huge increment in the expenses. There was an astounding increment of an inter-company loan by 1202.71% that needs to be investigated for the purpose and the usage of loan amount as there was no significant increase in the cash at bank. The cash to total assets was at 0.02%

Operating Cost Growth

32.56%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

It seemed to appear that the reason for a significant increase in its operating costs by 32.56% was due to the increment (249.22%) in the marketing and distribution cost to support the surge of its sales by 42.53%.

You will need to verify and review the sales agreements and to conduct a review on the expenses submitted over the two period.

Manpower cost / Sales

18.91%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

Manpower costs took up more than half of its operating expenses at 57.11% and the employee cost per sales was at 18.91%.

Even though the ratio was reasonable, do review the manpower costs against the number of employees within the company to ensure there were no over the norm salary payment to any individuals that may be lead to integrity issue on the company.

Trade Receivables Growth

13.7%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

Increased by 6.97% against its sales growth of 42.53%. The receivables were reasonably maintained in comparison with the sales growth.

A review to be conducted on the sales, cash and receivables patterns as there seem to be some inconsistency. Sales grew by 42.53%, costs increased by 32.56% but the cash to sales ratio was only at 0.04%. Yet, trade receivables did not grow substantially either.

Total Cash Growth

-99.8%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

Cash growth was negative at 99.75% and cash to sales ratio was low at 0.04% against a relatively high sales growth by 42.53% - this might imply that the company was inefficient in cash management and a weak internal policy and controls within the company.

You should look at the receivables of the company, as well as the nature of the sales transactions to deter if there is any possible sales inflation presented by the company.

FINANCIAL STATEMENT RISK (FIS)

TRANSACTION ANALYSIS (II)

*Currency used is in **USD** unless specified otherwise.*

Legend: Potential risk. Require immediate attention. It looks generally ok. Healthy.

Doubtful Debts / Total Sales

0.00%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

Provision for doubtful debts had declined by 100.00% - evaluate the rationale for the reduction and the contract deliverables to ensure that was no false booking of revenue to drive up sales and readjust by allocating doubtful debts thereafter.

Retained Earnings / Sales

-74.42

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

Despite limited net profit margin before tax of -30.64% reported for the period, its retained earnings/sales was reported at -74.42%. This was caused by the astounding dividend payout to its directors, where the ratio as at -250.05%.

This ratio is out of the ordinary and needs to be evaluated on the basis for the payout and if such payout was deemed acceptable and approved by the Board.

Total Liabilities / Equity

910.39%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

Total liabilities/equity stood at 910.39% and its short-term loans formed 68.47% of its total loans. Whereas, cash as a component of the current assets was only kept at 0.05% and only 0.02% over total assets.

There is a need to review and do a scenario test on the company's ability to repay its facilities within a year as per obligations from its existing revenue and cash on hand.

Inter-Company (Related Party) Liabilities / Total Liabilities

33.00%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

A large amount of inter-company loan ($4,800,000) was obtained for the period but there was no trace of cash in the bank and neither did it commensurate with the total expenses of the company.

The payables compared to the previous period did not decline widely, in fact there was a nominal increase by 0.01% and the total current liabilities had also increased by 232.16%. Hence, the loan would not have been used to pay down its outstanding liabilities.

Cash / Current Assets

0.05%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

Cash over current assets stood at merely 0.05% even with the increment in sales and loans taken.

You would need to review the underlying transactions and take note on the purpose of the increment in loan for the period against the available cash in bank.

FINANCIAL STATEMENT RISK (FIS)

TRANSACTION ANALYSIS (II)

*Currency used is in **USD** unless specified otherwise.*

Legend: Potential risk. Require immediate attention. It looks generally ok. Healthy.

Cash / Sales

0.04%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

Cash as a proportion of sales took up only 0.04% and the cash growth as compared to previous period was at -99.86%. A need to review the flow of funds and the payment accounts to check on the transaction entries to establish whether the accounts were done properly.

Dividend/Profit

-250.05%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

A massive dividend payout $7,000,000 for the year, a growth of 250.00% from previous period, despite a less than favourable net position (-30.64%).

You should assess the rights of the directors to allow such a payout and if there was a resolution passed and tabled out in the AGM.

Profit Margin Before Tax

-30.64%

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

Negative net profit margin before tax of 30.64% obtained despite a spike in its sales by 42.53%. The marketing and distribution cost in particular, shot up by 249.22% as compared to the previous period.

You should review the expenses allocation and determine if there is a proper control in the expenses approval process.

Current Ratio (Current Year)

-0.65

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

The liquidity ratios had declined compared to the previous period, from 3.10x to 0.65x in terms of the current ratio.

Quick Ratio (Current Year)

0.38

Affected Pillars

ENR	ENB	COE	FIS	DIR
INR	ECR	COR	FRR	OPR

Quick and cash ratio were at 0.38x and 0.04% respectively and hence at the operational level, it may pose as a risk in the firm as cashflow liquidity was highly constrained.

There is a need to conduct a test on the related party transactions and the transactional flow of the cash inflow and outflows.

CONTROL ENVIRONMENT (COE)

INTERNAL ENVIRONMENT (COE)

COE SCORE
61.4%

FINANCE & ACCOUNTING

Accounting entries are complete, done on a timely manner and accurate.

YES

Code: COR_P1-1001

Proper segregation of duty in the accounting system - *i.e. Different personnel holding access to the entry maker and approval role.*

YES

Code: COR_P1-1002

Accounting team has the relevant competency.

YES

Code: COR_P1-1003

INTERNAL CONTROL & STANDARD OPERATING PROCEDURES

Approval procedures are set appropriately, complete with limit settings.

YES

Code: COR_P1-1004

Proper segregation of duties performed across departments.

YES

Code: COR_P1-1005

Deploys and implements business performance management tracking and reporting systems.

YES

Code: COR_P1-1006

Keeps proper records of the assets, past audit documents and control documents.

YES

Code: COR_P1-1007

Keeps a log record on the resources performance and competency reporting.

YES

Code: COR_P1-1008

Has in place the transfer pricing procedures i.e. Related party transaction.

YES

Code: COR_P1-1009

INTERNAL ENVIRONMENT (COE)

DISCLOSURE

Proper disclosure made on compliance with the required laws and regulations.	Proper disclosure made on the susceptibility of the financial statements to fraud and error.	Team has the relevant expertise to prepare the required disclosure.
YES	**YES**	**YES**
Code: COR_P2-1010	Code: COR_P2-1011	Code: COR_P2-1012

INTERNAL AUDIT COMPLIANCE

Does periodic internal control SOP review to incorporate latest updates.	Does test review for TCWG operations / compliance.	Conducts regular accounting SOP review to adjust for Management Bias.
YES	**YES**	**YES**
Code: COR_P2-1013	Code: COR_P2-1014	Code: COR_P2-1015

INTERNAL CONTROL FINANCIAL HIGHLIGHTS FOR FY 2019

Code: COR_G2-2001| COR_G2-3001 | COR_G2-4001

Out of 47 ratios in Control Risk, 28 ratios were flagged to be of a concern.

Nominal net profit margin of 30.64% obtained despite a spike in its sales by 42.5%. The entertainment and marketing/promotion cost in particular, shot up by 136.25% and 249.22% as compared to the previous period. You should review the expenses allocation and determine if there is a proper control in the expenses approval process. Were the directors aware of the expenses spent in various expense category? Was there a limit per expense category that can be expended out as a form of budget control per employee per month? Was there a tiering of expenses budget for the different position grades within the company? Who has the authority to sign off the approval of the expenses?

In addition, the company had made a massive dividend payout $7,000,000 for the year, a growth of 250.00% from previous period, despite a less than favourable net position. You should assess the rights of the directors to allow such a payout and if there was a resolution passed and tabled out in the AGM.

The company's liabilities growth grew by 104.40% and its debt-to-equity ratio was alarmly high at 910.39%, with almost half of its total loans to be on a short-term basis (68.47%). You will need to review the control that the management holds in terms of making such high liquidity and liability exposure for the company and that decisions were made in the best interest of the company.

The highlighted issues may also pose a concern when the company is being reviewed for fraud and compliance risks.

OPERATIONAL RISK (OPR)

OPERATIONAL RISK (OPR)

OPR SCORE

51.8%

More than 70% headcounts are full-time staffs.	YES

Code: OPR_P1-1001

Production of core products are developed in-house.	YES

Code: OPR_P1-1002

Operates in large number of business locations and/or a wide geographical spread.	YES

Code: OPR_P1-1003

Customer and supplier based are limited.	NO

Code: OPR_P1-1004

Distribution channels are dependant on (outsource to) 3rd party provider.	NO

Code: OPR_P1-1005

Reliance on cloud-based platform for all its data storage.	YES

Code: OPR_P1-1006

Heavy reliance on particular products or services.	NO

Code: OPR_P1-1007

Has a proper risk management system in place for contingency.	NO

Code: OPR_P1-1008

Expands by investing own funds rather than reliance on partners.	NO

Code: OPR_P1-1009

OPERATIONAL HIGHLIGHTS FOR FY 2019

Code: ECR_G2-2001 | ECR_G2-2001
ECR_G2-3001 | ECR_G2-4001

Out of 94 ratios in Operational Risk, 34 ratios were flagged to be of a concern.

The cost of sales growth (71.54%) was higher than the sales growth (42.53%) for the current year, which led to a decline in gross profit margin by 81.46%. You will need to review the cost structure of the company to check for any change in the business model that led to an increase in the cost of delivery of its services. It seemed to appear that the reason for a significant increase by 136.25% and 249.22% in its entertainment and marketing cost compared to the previous period was due to the need to support in the surge of its sales by 42.53%. You will need to verify and review the sales agreements and to conduct a review on the expenses submitted over the two period. The trade receivables had increased by 6.97% against its sales growth of 42.53% - despite of an increment in sales, the receivables growth were reasonably maintained. Yet, the cash as a component of current assets was very low at 0.05%. In addition, the quick and cash ratio were at 0.38x and 0.04% respectively and hence at the operational level, it may pose as a risk in the firm as cashflow liquidity was highly constrained. There is a need to conduct a test on the related party transactions and the transactional flow of the cash inflow and outflows.

Other income had declined by 100.00% compared to the previous year. Review and check the nature of the other income in the previous year and ascertain the legitimacy of the income.

Operationally, it will be a risk if the company is unable to use its internal funds to pay off its obligations. The company's liability to equity was at 910.39% and its short-term loans formed 68.47% of its total loans. Whereas, cash as a component of the current assets was only kept at 0.05% and only 0.02% over total assets. There is a need to review and do a scenario test on the company's ability to repay its facilities if the lines were terminated pre-maturely or whether the company is able to pay off the loans within a year as per obligations from its existing and future revenue and cash on hand.

FRAUD RISK (FRR)

AUDITSTRAT
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FRAUD RISK (FRR)

FRR SCORE
58.0%

Does not appear to have a clear business justification on the use of business intermediaries and / or related party companies.	Display any signs of excessive pressure on management or operating personnel to meet financial targets established or profitability incentive goals.	Management may display signs of deliberately maintaining or increasing the entity's net worth or earnings trend.
NO	**YES**	**NO**
Code: FRR_P1-1001	Code: FRR_P1-1002	Code: FRR_P1-1003
Accounts show signs of significant, unusual, or highly complex transactions.	Some forms of conflict of interests exists within the transacting parties.	Unable to determine the controlling interest due to complex or unstable organisation structure.
NO	**NO**	**NO**
Code: FRR_P1-1004	Code: FRR_P1-1005	Code: FRR_P1-1006
No clear distinction between personnel expenses of management and business transactions.	Cashflow from operations position does not tally with the reported earnings.	High vulnerability to rapid changes, such as technology, product obsolescence, or interest rates.
YES	**NO**	**YES**
Code: FRR_P1-1007	Code: FRR_P1-1008	Code: FRR_P1-1009

FRAUD RISK (FRR)

Significant decline in customer demand and increasing business failures due to the economy performance.	High turnover of senior management, legal counsel, or those charged with governance.	Ineffective monitoring by TCWG and ineffective internal control.
YES	**YES**	**NO**
Code: FRR_P2-1010	Code: FRR_P2-1011	Code: FRR_P2-1012
Threat of bankruptcy, foreclosure, or hostile takeover.	Show signs of deliberate bypassing of approval limits.	Personal financial obligations of management or employees with access to the cash or assets are tight.
NO	**NO**	**NO**
Code: FRR_P2-1013	Code: FRR_P2-1014	Code: FRR_P2-1015

FRAUD FINANCIAL HIGHLIGHTS FOR FY 2019

Code: FRR_G2-2001| FRR_G2-3001 | FRR_G2-4001

Out of 67 ratios in Fraud Risk, 35 ratios were flagged to be of a concern.

Cash as a proportion of sales took up only 0.04% and the cash growth as compared to previous period was at -99.75%. To establish whether the accounts were done in accordance and of legitimate means, you should review the flow of funds and the payment accounts to check on the transaction entries.

A large amount of inter-company loan ($4,800,000) was obtained for the period but there was no trace of cash in the bank and neither did it commensurate with the total expenses of the company. The payables compared to the previous period did not decline widely, in fact there was a nominal increase by 0.01% and the total current liabilities had also increased by 232.16%. Hence, the loan borrowed from the related company would not have been used to pay down its outstanding liabilities. It was noted that a substantial amount of prepayment was made for the period, with a growth by 1781.63%. You will need to scrutinize the purpose of the upfront payment for goods or services not received.

Net profit margin was nominal at -30.64% despite an increase in sales by (42.53%. You should consider to assess expenses items like depreciation and any related-party expenses and the exposure to such items and that the transactions were all done at arms length basis, in accordance to the IFRS.

Borrowings had increased by 104.40% but yet sales did not improve accordingly. You should review the financial statement classification to check if they were materially misstated to conceal any possible fraud transactions.

FINANCIAL STATEMENTS

CASH FLOW STATEMENT

*Currency used is in **USD** unless specified otherwise.*

	Last Year	Current Year
Profit / (loss) before Tax	-$2,799,448	-$2,799,448
Adjustment for:		
Depreciation	$196,541	$196,541
Fair value gain of investment assets	$0	$0
Operating Profit before Changes in Working Capital	-$2,602,907	-$2,602,907
Increase in Inventories	-$119,478	-$119,478
Decrease in Receivables	$3,177,058	$3,177,058
Increase in Payables	$5,033,702	$5,033,702
Cash Flow from Operations	$5,488,375	$5,488,375
Provision paid	$0	$0
Taxes paid	$0	$0
Taxes credit received	$1,748,859	$1,748,859
Interest paid	-$116,251	-$116,251
Interest received	$0	$0
Dividend received from associates	$0	$0
Dividend received from equity investment	$0	$0
Net Cash generated from operating activities	$7,120,983	$7,120,983
Cash Flow from Investing activities		
Purchased of investment, PPE and non-current assets	$7,170,746	$7,170,746
Free Cash Flow	-$49,762	-$49,762
Free Cash Flow / Sales (%)	-1%	-1%
Cash Flow from Financing Activities		
Proceeds from issuance of shares	$750,000	$750,000
Proceeds from bank borrowings / (Repayment of Bank Borrowings)	$4,770,593	$4,770,593
Dividend paid	-$7,000,000	-$7,000,000
Net cash	-$1,529,169	-$1,529,169
Cash & Cash equivalent B/F	$1,631,350	$1,631,350
Cash & Cash equivalent C/F	$102,181	$102,181

BALANCE SHEET

*Currency used is in **USD** unless specified otherwise.*

	Last Year	Current Year	% Change
NON-CURRENT ASSETS			
Property, Plant & Equipment	$786,399	$439,623	78.88%
Other Non-Current	$8,500,000	$4,500,000	88.89%
Total Non-Current Assets	$9,286,399	$4,939,623	88.0%
CURRENT ASSETS			
Cash	$3,770	$1,535,057	-99.75%
Trade Debtors	$3,858,000	$3,606,622	6.97%
Provision For Doubtful Debts	$0	-$5,905	-100.00%
Inventories	$966,100	$846,622	14.11%
Other Current Assets	$2,030,026	$3,841,805	-47.16%
Total Current Assets	$6,857,897	$9,824,201	-30.19%
TOTAL ASSETS	$16,144,296	$14,763,824	9.35%
CURRENT LIABILITIES			
Trade Creditors	$19,643	$19,642	0.01%
Accruals	$253,698	$252,298	0.55%
Term Loan	$8,693,708	$2,199,681	295.23%
Deferred Tax	$473,194	$202,257	133.96%
Lease Creditor	$0	$0	N.A
Other Creditor	$1,102,164	$500,000	120.43%
Total Current Liabilities	$10,542,407	$3,173,878	232.16%
NON-CURRENT LIABILITIES			
Term Loan	$4,004,061	$3,942,670	1.56%
TOTAL LIABILITIES	$14,546,468	$7,116,548	104.40%
EQUITY			
Issued Share Capital	$1,500,000	$750,000	100.00%
Retained Earning B/F	$6,897,276	$6,297,377	9.53%
Earning For The Year	-$6,799,448	$599,899	-1233.43%
Retained Earning C/F	$97,828	$6,897,276	-98.58%
TOTAL EQUITY	$1,597,828	$7,647,276	-79.11%
TOTAL EQUITY & LIABILITIES	$16,144,296	$14,763,824	9.35%

INCOME STATEMENT

*Currency used is in **USD** unless specified otherwise.*

	Current Year	Last Year	% Change
SALES	$9,136,046	$6,410,030	42.53%
Cost of Sales	$8,910,722	$5,194,542	71.54%
Gross Profit / (Loss)	$225,325	$1,215,488	-81.46%
Other income 1 - Interest income	$0	$120,010	-100.00%
Other income 2 - Investment assets value impaired	$0	$50,090	-100.00%
EXPENSES			
Manpower Cost	$1,727,336	$1,519,181	13.70%
Marketing & Distribution Cost	$767,163	$267,163	187.15%
General & Admin Cost	$168,984	$168,984	0.00%
Rental Cost	$48,000	$48,000	0.00%
Provision for Doubtful Debts	$0	$0	N.A
Depreciation	$196,541	$196,541	0.00%
Finance Cost	$116,749	$81,874	42.60%
TOTAL OPERATING EXPENSES	$3,024,773	$2,281,743	32.56%
PROFIT BEFORE TAX / (LOSS BEFORE TAX)	-$2,799,448	-$896,155	212.38%
Add/(Less) Other expenses:			
Tax credit	$3,000,000	$1,748,859	71.54%
PROFIT AFTER TAX / (LOSS AFTER TAX)	$200,552	$852,704	-76.48%
Less Dividend paid	$7,000,000	$2,000,000	250.00%
RETAINED EARNING (Earning per share, Adjusted)	-$6,799,448	-$1,147,296	492.65%

FINANCIAL STATEMENT RISK (FIS)

LEDGER ANALYSIS (EXCERPTS) (I)

*Currency used is in **USD** unless specified otherwise.*

COS Group	Ledger	Operating Cost	FY 2019	FY 2018	FY 2017	Variance (2019 vs 2018)	Variance (2018 vs 2017)
Project	6100-101	Material	1,000,000	750,000	400,000	250,000	350,000
Project	6100-102	Contract Wages	800,000	500,000	400,000	300,000	100,000
Project	6100-103	FX loss	0	87,000	825,000	-87,000	-738,000
Trading	6200-101	Goods	6,300,000	3,000,000	3,800,000	3,300,000	-800,000
Trading	6200-102	Transportation	300,000	598,000	100,000	-298,000	498,000
Trading	6200-103	Product Warranty	205,839	258,586	254,400	-52,747	4,186
Services	6300-101	Outsource services	304,883	956	1,002	303,927	-46
	Total Per Ledger		8,910,722	5,194,542	5,780,402	3,716,180	-585,860

There are 3 types of COS Group within the company, namely Project, Trading and Services. Total COS for FY 2019 stood at $8,910,722 and increased by $3,716,180 (71.54%). Services had the highest change in variance compared to the previous period at $303,927 (31791.48%), followed by Trading at $2,949,253 (76.47%).

Within Project, Goods had the highest variance at -100.00%, followed by Transportation at 60.00%. Within Trading, Goods had the highest variance at 110.00%, followed by Transportation at -49.83%.

For Material, a debit note being quantity adjustment for SKU771 in 2019. Transportation cost had two debit note of ($0.5M) being provision adjustment for SKU800 in 2018 & 2019.

AR Group	Sub - Ledger	Customer	FY 2019	FY 2018	FY 2017	Variance (2019 vs 2018)	Variance (2018 vs 2017)
Project	3100-001	ABC P/L	0	0	0	0	0
Project	3100-002	DEF P/L	0	0	0	0	0
Project	3100-003	GHI P/L	0	0	0	0	0
Trading	3200-101	Alpha P/L	400,000	500,000	500,000	-100,000	0
Trading	3200-102	Beta P/L	600,000	800,000	800,000	-200,000	0
Trading	3200-103	White P/L	1,500,000	2,000,000	2,000,000	-500,000	0
Trading	3200-104	Black P/L	1,358,000	306,622	306,622	1,051,378	0
Services	3300-101	XYZ P/L	0	0	0	0	0
	Total Per Ledger		3,858,000	3,606,622	3,606,622	251,378	0

There are 3 types of AR Group within the company, namely Project, Trading and Services. Total AR for FY 2019 stood at $3,858,000 and increased by $251,378 (6.97%). There was no changes for both Project and Services Group.

Within Trading, Black P/L had the highest variance at 342.89%, followed by Beta P/L at -25.00%.

Alpha P/L had an outstanding balance of $400,000. This balance remained outstanding since 2018 despite two CN ($0.6M) being commission for SKU 120 & 230, which was issued to offset against the original billed amount of $1.6M.

Beta P/L had an outstanding balance of $600,000. This balance remained outstanding since 2018 despite two CN ($0.4M) being discount for SKU 990, billed in 2018.

White P/L and Black P/L had an outstanding balance of $1,500,000 and $1,358,000 respectively.

FINANCIAL STATEMENT RISK (FIS)

LEDGER ANALYSIS (EXCERPTS) (II)

*Currency used is in **USD** unless specified otherwise.*

Group	Sub Ledger	Sub Group	FY 2019	FY 2018	FY 2017	Variance (2019 vs 2018)	Variance (2018 vs 2017)
Revenue	5100	Project	3,200,000	955,000	1,250,000	2,245,000	-295,000
	5200	Trading	5,500,500	5,359,430	4,616,000	141,070	743,430
	5300	Services	435,546	95,600	100,200	339,946	-4,600
		Total Revenue	9,136,046	6,410,030	5,966,200	2,726,016	443,830
COS	6100	Project	1,800,000	1,337,000	1,625,000	463,000	-288,000
	6200	Trading	6,805,839	3,856,586	4,154,400	2,949,253	-297,814
	6300	Services	304,883	956	1,002	303,927	-46
		Total COS	8,910,722	5,194,542	5,780,402	3,716,180	-585,860
GP		Project	1,400,000	-382,000	-375,000	1,782,000	-7,000
		Trading	-1,305,339	1,502,844	461,600	-2,808,183	1,041,244
		Services	130,664	94,644	99,198	36,020	-4,554
		Total GP	225,325	1,215,488	185,798	-990,163	1,029,690

There are 3 types of revenue model within the company, namely Project, Trading and Services. Total revenue for FY 2019 stood at $9,136,046, an improvement by $2,726,016 (42.53%). Trading contributed the highest revenue at $5,500,500 (60.21%), followed by Project at $3,200,000 (35.03%) and lastly, Services at $435,546 (4.77%).

The highest COS required to generate the respective revenue sub group came from Trading where it constituted 74.49% of total revenue, whereas the other 2 verticles' COS were below 20% of its total revenue.Services did grew exponentially at 31791.48% but yet it was not an area of concern as the cost was minimal in the previous period.

As a result, at the GP level, the revenue model - Trading was making a loss of -14.29%, whereas Project and Services were making a nominal GP of 15.32% and 1.43% respectively.

Group	Sub Ledger	Manpower Costs	FY 2019	FY 2018	FY 2017	Variance (2019 vs 2018)	Variance (2018 vs 2017)
Director Salary & Benefits	9000-101	Salaries & Bonus	639,331	503,831	478,639	135,500	25,192
	9000-102	CPF & SDL	86,315	91,435	86,863	-5,120	4,572
	9000-103	Benefits	71,978	143,955	141,076	-71,978	2,879
		Total Costs	797,624	739,221	706,579	58,402	32,642
Employees Salary & Benefits	9000-120	Salaries & Bonus	796,086	1,382,595	1,354,943	-586,509	27,652
	9000-121	CPF & SDL	98,189	195,556	191,645	-97,367	3,911
	9000-122	Benefits	35,437	70,875	70,875	-35,437	0
		Total Costs	929,712	1,649,026	1,617,463	-719,314	31,563
		Grand Total Costs	1,727,336	2,388,247	2,324,041	-660,911	64,205

Despite a nominal increase in the manpower costs expensed for the directors at $58,402, the overall manpower costs had declined by 27.67% due to the steep decline in the manpower costs expensed for the employees. The employees cost had declined by 43.62%, from $1,649,026 to $929,712 in FY 2019.

The main cause for the decline in employee costs was due to a steep reduction in the benefits by 50.00% as compared to the previous period. On the other hand, despite a reduction in the benefits to the directors by 50.00%, the salaries and bonuses for the directors had gone up by 26.89% in comparison to the employees.

A review should be done on the validity of such increments as revenue had grew by 42.53% and yet overall manpower costs had been severely reduced.

FINANCIAL STATEMENT RISK (FIS)

LEDGER ANALYSIS (EXCERPTS) (III)

*Currency used is in **USD** unless specified otherwise.*

Group	Sub Ledger	Operation Costs	FY 2019	FY 2018	FY 2017	Variance (2019 vs 2018)	Variance (2018 vs 2017)
Facilities & Mgt	9001-001	Building Upkeep: A/C; Security; Housekeeping; etc	9,450	9,450	9,167	0	284
	9001-002	Rental	48,000	48,000	46,560	0	1,440
	9001-003	Office upkeep	9,100	9,100	8,827	0	273
		Total Facilities & Mgt Cost	66,550	66,550	64,554	0	1,997
Business Devt	9001-021	Entertainment	346,788	146,788	142,384	200,000	4,404
	9001-022	Sales Commission	381,812	81,812	79,358	300,000	2,454
	9001-023	Gifts & Promotional Materials	23,569	23,569	22,862	0	707
	9001-024	Local Transport	8,050	12,125	11,762	-4,075	364
	9001-025	Overseas Transport	2,439	2,439	2,366	0	73
	9001-026	Overseas Accommodation	4,405	4,405	4,273	0	132
	9001-027	Tender Fees	100	100	97	0	132
		Total Business Dev Cost	767,163	271,238	263,101	495,925	8,266
IT	9001-004	IT Network Maintenance	2,040	2,040	1,979	0	61
	9001-005	IT Hardware Supplies	2,118	2,118	2,054	0	64
	9001-006	Software Licence Fees	1,100	1,100	1,067	0	33
	9001-007	Website Hosting, Maintenance & Licence (Local)	588	588	570	0	18
		Total IT Cost	5,846	5,846	5,671	0	175
Finance Cost	9001-028	Loan Interest	116,251	81,376	78,934	34,875	2,441
	9001-029	Bank Charges	498	498	483	0	15
		Total Finance Cost	116,749	81,874	79,417	34,875	2,456
Admin	9001-008	Postage & Courier Services	615	615	597	0	18
	9001-009	Fines & Penalties	100	100	97	0	3
	9001-010	Donation & Sponsorship Fees	14,000	14,000	13,580	0	420
	9001-011	Depreciation	196,541	196,541	190,645	0	5,896
	9001-012	Office Equip Maintenance	284	284	275	0	9
	9001-013	Printing & Printer Rental	21,551	21,551	20,905	0	647
	9001-014	Telecommunications	25,749	25,749	24,977	0	772
	9001-015	Local Transport	15,989	22,453	21,780	-6,464	674
	9001-016	Food & Beverage	10,773	10,773	10,449	0	323
	9001-017	Professional Fees	43,375	57,001	55,291	-13,626	1,710
	9001-018	Tax Fees & Charges	323	323	313	0	10
	9001-019	Registration & Renewal Fees	675	675	655	0	20
	9001-020	Others	11,154	19,932	655	-8,779	19,277
		Total Admin Cost	341,129	369,997	340,218	-28,868	29,779
		Grand Total Costs	1,297,437	795,505	752,961	501,932	42,674

There are 5 categories of operating costs within the company, namely Facilities & Mgt, Business Devt, IT, Finance Cost and Admin. Total operating costs for FY 2019 stood at $1,297,437, an increment by 63.10% from the previous period. Of which, the highest cost was spent on Business Devt at 59.13%, followed by Admin at 26.29%. These 2 expenses contributed to 85.42% of the total expenses.

Within Business Devt, the highest expense was made for Sales Commission where it constituted 29.43% of total operating costs. This expense under Business Devt also increased the most by 366.69% compared to the previous period. This seems to be in line with the increment in revenue for the period.

As for the expenses under Admin, the highest expense was due to Depreciation at 15.15% of total operating costs.

GLOSSARIES

GLOSSARY (I-A)

INTERNATIONAL ACCOUNTING STANDARDS (IAS)

IAS 1

Presentation of Financial Statements sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction.

IAS 2

Inventories. The standard requires inventories to be measured at the lower of cost and net realisable value (NRV) and outlines acceptable methods of determining cost, including specific identification (in some cases), first-in first-out (FIFO) and weighted average cost.

IAS 8

Accounting Policies, Changes in Accounting Estimates and Errors is applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors.

IAS 10

Events After The Reporting Period contains requirements for when events after the end of the reporting period should be adjusted in the financial statements.

IAS 11

Construction Contracts provides requirements on the allocation of contract revenue and contract costs to accounting periods in which construction work is performed. Contract revenues and expenses are recognised by reference to the stage of completion of contract activity where the outcome of the construction contract can be estimated reliably, otherwise revenue is recognised only to the extent of recoverable contract costs incurred.

IAS 12

Income Taxes implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognises both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognised, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.

IAS 16

Property, Plant and Equipment outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.

IAS 17

Leases prescribes the accounting policies and disclosures applicable to leases, both for lessees and lessors. Leases are required to be classified as either finance leases (which transfer substantially all the risks and rewards of ownership, and give rise to asset and liability recognition by the lessee and a receivable by the lessor) and operating leases (which result in expense recognition by the lessee, with the asset remaining recognised by the lessor).

IAS 18

Revenue outlines the accounting requirements for when to recognise revenue from the sale of goods, rendering of services, and for interest, royalties and dividends. Revenue is measured at the fair value of the consideration received or receivable and recognised when prescribed conditions are met, which depend on the nature of the revenue.

IAS 19

Employee Benefits (amended 2011) outlines the accounting requirements for employee benefits, including short-term benefits (e.g. wages and salaries, annual leave), post-employment benefits such as retirement benefits, other long-term benefits (e.g. long service leave) and termination benefits.

IAS 20

Accounting for Government Grants and Disclosure of Government Assistance outlines how to account for government grants and other assistance. Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate, which in the case of grants related to assets requires setting up the grant as deferred income or deducting it from the carrying amount of the asset.

IAS 21

IAS 21 The Effects of Changes in Foreign Exchange Rates outlines how to account for foreign currency transactions and operations in financial statements, and also how to translate financial statements into a presentation currency. An entity is required to determine a functional currency (for each of its operations if necessary) based on the primary economic environment in which it operates and generally records foreign currency transactions using the spot conversion rate to that functional currency on the date of the transaction.

IAS 24

Related Party Disclosures requires disclosures about transactions and outstanding balances with an entity's related parties. The standard defines various classes of entities and people as related parties and sets out the disclosures required in respect of those parties, including the compensation of key management personnel.

IAS 27

Separate Financial Statements (as amended in 2011) outlines the accounting and disclosure requirements for 'separate financial statements', which are financial statements prepared by a parent, or an investor in a joint venture or associate, where those investments are accounted for either at cost or in accordance with ***IAS 39*** *Financial Instruments: Recognition and Measurement* or ***IFRS 9*** *Financial Instruments*. The standard also outlines the accounting requirements for dividends and contains numerous disclosure requirements.

To be contintued next page. ⮌

GLOSSARY (I-A)

INTERNATIONAL ACCOUNTING STANDARDS (IAS)

IAS 28

Investments in Associates outlines the accounting for investments in associates. An associate is an entity over which an investor has significant influence, being the power to participate in the financial and operating policy decisions of the investee (but not control or joint control), and investments in associates are, with limited exceptions, required to be accounted for using the equity method.

IAS 29

Financial Reporting in Hyperinflationary Economies applies where an entity's functional currency is that of a hyperinflationary economy. The standard does not prescribe when hyperinflation arises but requires the financial statements (and corresponding figures for previous periods) of an entity with a functional currency that is hyperinflationary to be restated for the changes in the general pricing power of the functional currency.

IAS 30

Disclosures in the Financial Statements of Banks and Similar Financial Institutions. The objective of IAS 30 is to prescribe appropriate presentation and disclosure standards for banks and similar financial institutions (hereafter called 'banks'), which supplement the requirements of other Standards. The intention is to provide users with appropriate information to assist them in evaluating the financial position and performance of banks, and to enable them to obtain a better understanding of the special characteristics of the operations of banks.

IAS 31

Interests in Joint Ventures sets out the accounting for an entity's interests in various forms of joint ventures: jointly controlled operations, jointly controlled assets, and jointly controlled entities. The standard permits jointly controlled entities to be accounted for using either the equity method or by proportionate consolidation.

IAS 32

Financial Instruments Presentation outlines the accounting requirements for the presentation of financial instruments, particularly as to the classification of such instruments into financial assets, financial liabilities and equity instruments. The standard also provide guidance on the classification of related interest, dividends and gains/losses, and when financial assets and financial liabilities can be offset.

IAS 34

Interim Financial Reporting applies when an entity prepares an interim financial report, without mandating when an entity should prepare such a report. Permitting less information to be reported than in annual financial statements (on the basis of providing an update to those financial statements), the standard outlines the recognition, measurement and disclosure requirements for interim reports.

IAS 36

Impairment of Assets seeks to ensure that an entity's assets are not carried at more than their recoverable amount (i.e. the higher of fair value less costs of disposal and value in use). With the exception of goodwill and certain intangible assets for which an annual impairment test is required, entities are required to conduct impairment tests where there is an indication of impairment of an asset, and the test may be conducted for a 'cash-generating unit' where an asset does not generate cash inflows that are largely independent of those from other assets.

IAS 37

Provisions, Contingent Liabilities and Contingent Assets outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable). Provisions are measured at the best estimate (including risks and uncertainties) of the expenditure required to settle the present obligation, and reflects the present value of expenditures required to settle the obligation where the time value of money is material.

IAS 38

Intangible Assets outlines the accounting requirements for intangible assets, which are non-monetary assets which are without physical substance and identifiable (either being separable or arising from contractual or other legal rights). Intangible assets meeting the relevant recognition criteria are initially measured at cost, subsequently measured at cost or using the revaluation model, and amortised on a systematic basis over their useful lives (unless the asset has an indefinite useful life, in which case it is not amortised).

IAS 39

Financial Instruments: Recognition and Measurement outlines the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Financial instruments are initially recognised when an entity becomes a party to the contractual provisions of the instrument, and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument (typically amortised cost or fair value). Special rules apply to embedded derivatives and hedging instruments.

IAS 40

Investment Property applies to the accounting for property (land and/or buildings) held to earn rentals or for capital appreciation (or both). Investment properties are initially measured at cost and, with some exceptions. may be subsequently measured using a cost model or fair value model, with changes in the fair value under the fair value model being recognised in profit or loss.

IAS 41

Agriculture sets out the accounting for agricultural activity – the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standard generally requires biological assets to be measured at fair value less costs to sell.

The end.

GLOSSARY (II-A)

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

IFRS 1

First-time Adoption of International Financial Reporting Standards sets out the procedures that an entity must follow when it adopts IFRSs for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to comply with each IFRS effective at the end of its first IFRS reporting period.

IFRS 2

Share-based Payment requires an entity to recognise share-based payment transactions (such as granted shares, share options, or share appreciation rights) in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity. Specific requirements are included for equity-settled and cash-settled share-based payment transactions, as well as those where the entity or supplier has a choice of cash or equity instruments.

IFRS 3

Business Combinations outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.

IFRS 4

Insurance Contracts applies, with limited exceptions, to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. In light of the IASB's comprehensive project on insurance contracts, the standard provides a temporary exemption from the requirements of some other IFRSs, including the requirement to consider IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors when selecting accounting policies for insurance contracts.

IFRS 5

Non-current Assets Held for Sale and Discontinued Operations outlines how to account for non-current assets held for sale (or for distribution to owners). In general terms, assets (or disposal groups) held for sale are not depreciated, are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the statement of financial position.

IFRS 6

Exploration for and Evaluation of Mineral Resources has the effect of allowing entities adopting the standard for the first time to use accounting policies for exploration and evaluation assets that were applied before adopting IFRSs. It also modifies impairment testing of exploration and evaluation assets by introducing different impairment indicators and allowing the carrying amount to be tested at an aggregate level (not greater than a segment).

IFRS 7

Financial Instruments: Disclosures requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.

IFRS 8

Operating Segments requires particular classes of entities (essentially those with publicly traded securities) to disclose information about their operating segments, products and services, the geographical areas in which they operate, and their major customers. Information is based on internal management reports, both in the identification of operating segments and measurement of disclosed segment information.

IFRS 9

Financial Instruments includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

IFRS 10

Consolidated Financial Statements outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee.

GLOSSARY (II-B)

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

IFRS 11

Joint Arrangements outlines the accounting by entities that jointly control an arrangement. Joint control involves the contractually agreed sharing of control and arrangements subject to joint control are classified as either a joint venture (representing a share of net assets and equity accounted) or a joint operation (representing rights to assets and obligations for liabilities, accounted for accordingly).

IFRS 12

Disclosure of Interests in Other Entities is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. Disclosures are presented as a series of objectives, with detailed guidance on satisfying those objectives.

IFRS 13

Fair Value Measurement applies to IFRSs that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The Standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement.

IFRS 14

Regulatory Deferral Accounts permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required.

IFRS 15

Revenue from Contracts with Customers specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

IFRS 16

Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

IFRS 17

Insurance Contracts establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

The end.

RISK SCORE LEGEND

Low Risk

Greater than or equal to 83.3%, less than or equal to 100%

Moderate Risk

Greater than or equal to 58.3%, less than 83.3%

Above Moderate Risk

Greater than or equal to 33.3%, less than 58.3%

Serious Risk

Less than 33.3%, greater than or equal to 1%

AUDITSTRAT

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MYFINB.COM

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myfinb-group

@MyFinBGroup

SINGAPORE

MyFinB Holdings Pte. Ltd.

One Marina Boulevard, Level 20, Singapore 018989

Tel: +65 6932 2658

MALAYSIA

MyFinB (M) Sdn. Bhd.

Level 13A, Menara Tokio Marine 189 Jalan Tun Razak, Hampshire Park, 50450 Kuala Lumpur, Malaysia.

Tel: +60 327 173 418