

How to pay off your huge credit card debt in 5 years

Letter from **TAN HUEY MIN**
Assistant Director
Credit Counselling Singapore

WE REFER to Mr Colin Ong's letter "Some prudence would help the new poor" (Jan 19).

Credit cards have sometimes been regarded as one of the great inventions of this modern era. They afford convenience for people to make payments without the need to carry cash, almost anywhere.

It is therefore not surprising that people will aspire to carry a credit card.

Many cards also come with various discounts and rewards schemes which increase the attractiveness of the cards to individuals.

The fact that one needs to meet a certain income level to qualify for a credit card also makes it a status symbol that individuals aspire to attain.

However, credit cards also carry a downside risk because it is

so easy for an individual to over-spend and go into debt.

Credit Counselling Singapore (CCS) finds that for many individuals, the downward spiral to credit card problems starts with the individual first skipping full payments and making only the minimum payment on their card accounts since these are "affordable".

This is a phenomenon called "debt creep", with the debt first starting off small and growing as the individual continues to spend and the credit card bills get larger and larger every month.

Soon the person has to borrow from one bank to pay off another bank as the total amount increases beyond his ability to pay even the minimum payments necessary.

CCS has also experienced many people who have used their credit cards to make loans to friends, business purposes, gambling, and to cover up losses from their share trading.

To these people, credit cards

are used to obtain credit and not as a tool to make payments which is the wrong use for credit cards.

The interest charges on credit cards are at usually 24%. With the effects of compounding and various other charges such as late payment fees (which can go up to \$80 per month), the effective rates are easily over 30%.

It is therefore very easy to get into debt but very difficult to get out.

So for people who are already in credit card debt, our advice is to stop any more spending on their credit cards and to enter into a disciplined programme of paying meaningful amounts to reduce the debts.

Our calculations show that if individuals start off and maintain the initial amount of minimum payment throughout, without any more spending and without any reduction in the monthly payments, it is possible to pay off their credit card debts within 5 years.

Auditors passing the buck on fraud?

Negligence factor must be considered

Letter from **LIM SOON HENG**

I REFER to the letter, "Audit is not a 'fraud-detection' exercise", (Jan 19) from Ms Janet Tan of the Institute of Public Accountants.

Her letter is full of interesting contradictions, just like the public accountants who earn exorbitant wages without having to be responsible for what they append their names to.

I have yet to come across an accountant who has been hauled to court even though the negligence of several public accounting firms is known to have caused pain and suffering to many a small investor and his family.

I am not one who believes that the ideals of corporate governance and the interest of the investing public are well served by the appointment of the Audit Committee.

It is like Parkinson's law: The more groups of people held responsible for the transparency of a company's transaction, the less each becomes answerable if a fraud surfaces.

Before the advent of the Audit Committee, if it was discovered that when a financial statement was misleading, we knew who was a fault. Now the Public Accountant takes cover behind the Audit Committee. The management, often the perpetrator, is also shielded from

the Public Accountant thanks to the Audit Committee.

The whole set up is a farce. The Audit Committee is a heaven-sent scapegoat for the Public Accountant.

Ms Tan says: "The auditors' responsibility is to express an opinion; that is whether the financial statements are drawn up in accordance with the provisions of the Companies Act and FRSS (Financial Reporting Standards) so as to give a true and fair view."

This does not seem very logical to me. The financial statements are either drawn up in accordance with the Companies Act and FRSS, or it is not. No "opinion" is needed.

If it is yes and a fraud is later discovered, then the Companies Act or the FRSS or both are ineffective.

If it is not ineffective and a fraud is later discovered, in spite of the auditors' favourable opinion, then surely the auditor is negligent.

Why have we seen so many financial statements turn out to be fraudulent, for which investors pay millions of dollars to public accountants who declared them "true and fair"?

The reason is simply that the risk to public accountants of a misstatement doesn't seem to matter much.

The need for annual audits

Letter from **MS JANET TAN**
Executive Director
Institute of Certified Public
Accountants of Singapore

WE REFER to the letter, "Are auditors even necessary?" (Jan 20), by Dr Ng Swee Ching.

The preparation of financial statements is the responsibility of the management and directors of a company.

The auditors' role is to audit the financial statements. The objective of an audit of financial statements is to enable the auditor to express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework.

The value of an audit includes the credibility provided to the financial statements and improved internal controls.

An audit is not a mere

rolling forward of accounting figures or the use of a standard template or format for the preparation of financial statements.

An audit is designed to provide reasonable assurance that the financial statements taken as a whole are free from material misstatement.

Reasonable assurance is a concept relating to the accumulation of the audit evidence necessary for the auditor to conclude that there are no material misstatements in the financial statements taken as a whole.

Furthermore, an audit report that attests to the truth and fairness of financial statements pertaining to one financial year does not imply that future unaudited financial statements are also true and fair. If Dr Ng wishes to have more information concerning the value and benefits of an audit, please call the Institute at telephone number 6749 8060.

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