

**FINANCIAL REPORTING PRACTICE GUIDANCE NO. 1 of 2020**  
**(Issued on 22 May 2020)**

**PROPOSED AREAS OF REVIEW FOCUS BY DIRECTORS ON THE  
FINANCIAL STATEMENTS AFFECTED BY THE COVID-19 PANDEMIC**

**Background**

The COVID-19 pandemic has brought about disruption to the operations of many companies. It has also led to an unprecedented level of market volatilities and economic uncertainties. These events and conditions have significant financial reporting implications.

ACRA has published this guidance to help directors in their reviews of the upcoming financial statements (FS). It highlights warning signs of some possible non-compliance(s) with accounting standards, and provides directors with questions to ask management and statutory auditors when assessing the impact from COVID-19 pandemic on the financial statements.

**1. Financial Position and Sustainability**

Since the beginning of 2020, many companies have experienced disruptions to their operations and sharp decreases in their sales. Companies in the tourism sector were first impacted by the travel restrictions and border closures. This is followed by companies in the retail, entertainment, construction and other sectors with the safe distancing measures and various degrees of lockdown implemented around the world.

On 26 March 2020, the Ministry of Trade and Industry (MTI) announced<sup>1</sup> that based on advance estimates, the Singapore economy contracted by 2.2% on a year-on-year basis in the first quarter of 2020. MTI also downgraded Singapore's GDP growth forecast for 2020 to "-4.0 to -1.0 per cent".

When reviewing the FS for the financial year ended 31 December 2019 and beyond, directors ought to pay close attention to the following areas involving management's estimates, and question the assumptions vigorously:

**In respect of the carrying amount of assets**

**(a) Property, plant and equipment, goodwill and other intangible assets**

Due to the adverse impact of the COVID-19 pandemic on the profitability, asset values and market capitalisation of many companies, the indicators for impairment are more present now than before. Accordingly, directors should expect management to perform **impairment tests**, and a **smaller headroom** (or impairment loss to be recognised) to result from these tests.

---

<sup>1</sup> Refer to [www.mti.gov.sg/-/media/MTI/Newsroom/Press-Releases/2020/03/AdvEst\\_1Q20.pdf](http://www.mti.gov.sg/-/media/MTI/Newsroom/Press-Releases/2020/03/AdvEst_1Q20.pdf)

If the headroom from an impairment test is similar to, or larger than, that in the previous year, directors should check:

- i. whether the **discount rate** used to estimate the asset's recoverable amount **is updated to reflect the higher risks associated with the COVID-19 situation**. Even though the central banks in many countries, including Singapore, have implemented measures to reduce interest rates in response to economic concerns over COVID-19, the credit risk premium may still increase. If the country risk premium used to derive the discount rate is last updated before the COVID-19 pandemic, it should also be adjusted accordingly; and
- ii. where the higher risks are not reflected in the discount rate, whether these risks are reflected in the **forecasted cash flows** (e.g. sales, gross margin and changes in working capital) used to estimate the asset's recoverable amount.

Management will likely face difficulties in predicting the impact of the COVID-19 outbreak, as it can cause large variabilities to cash flow projections depending on different possible outcomes. If so, directors can encourage management to use an expected cash flow approach based on **a range of probability-weighted possible outcomes**.

Some companies may use new ways of doing businesses and/or change their business strategies when navigating through these unprecedented times. They may also use their machineries in a manner that is different from the normal purpose, or plan to dispose them to raise funds. When these strategies have been approved by the Board of directors, these scenarios could be considered as possible outcomes under the expected cash flow approach.

To help investors assess the safety margins of their investments, directors should ensure that sensitivity analysis for reasonably possible changes in key assumptions (e.g. growth rate, discount rate) are meaningfully disclosed in the FS. In line with market uncertainties, directors should also expect that the **reasonably possible changes in key assumptions** would be higher than the typical 1% to 2% disclosed in the past.

(b) **Investment properties and other non-current assets held at fair value**

*In view of the circuit breaker measures*, property valuers may not be able to conduct onsite inspections to value some properties. If so, they will indicate in the valuation report that the valuation was performed based on information provided by the owner or from other sources<sup>2</sup>. Directors should ensure that management has **provided accurate information to valuers** in these areas.

---

<sup>2</sup> Refer to

<http://www.sisv.org.sg/admin/efinder/files/doc/vgp/circulars/2020/SISV%20VALUATION%20APPROACH%20-%20STRICTER%20MEASURES%20ON%20COVID-19%20OUTBREAK%20SITUATION%2006APR20.pdf>

*Some market participants expect property prices to change rapidly in the medium term.* In the event that the fair value of some properties is expected to change significantly between the year-end date and the date that the FS is authorised for issue, directors should **consider performing a revaluation**. While the fair value change may be a non-adjusting event, they should be disclosed to help investors understand the material change in the carrying amount of those properties subsequent to year-end. Such information may also be required for half-year results announcements.

Directors should also check if any other caveat is included in the valuation report, and if so, to consider their implications.

(c) **Inventories**

*Seasonal inventories and perishable products might be exposed to the risk of loss due to damage and/or contamination. Coupled with reduced inventory movement, lower commodity prices and changing patterns of customer purchases,* directors should **ensure that such inventories are written down to their net realisable value**. This is particularly relevant for companies in the retail, manufacturing, and property development sectors.

*Due to global supply chain disruption and temporary shut-down of production lines,* some manufacturers may not be producing at their usual capacities. If a company's production level is abnormally low, directors should still expect the costing of inventories to be based on normal production capacity so as to avoid overstating the cost of inventories. Unallocated fixed overheads should be expensed off in the period in which they are incurred. Directors should also ensure that **fixed assets in idle production lines are continually depreciated**.

*On 24 April 2020, the Urban Redevelopment Authority released the real estate statistics<sup>3</sup> for the first quarter of 2020.* Property prices across both residential and commercial segments fell, and the decline is expected to continue into the second quarter amidst delayed construction timelines and slower sales of housing units due to circuit breaker measures. While the Singapore government has granted a six-month extension for property developers to meet the conditions to qualify for Additional Buyer's Stamp Duty (ABSD) remission, directors of property developer companies should still **consider the impact of shrinking demand** on unsold units.

(d) **Trade, other receivables and contract assets**

*Due to unstable trading conditions and some customers' inability to pay debts when due,* estimating expected credit loss allowance (ECL) will require more judgments. Directors are reminded to **apply more rigour** when reviewing management's ECL estimates:

---

<sup>3</sup> Refer to <https://www.ura.gov.sg/Corporate/Media-Room/Media-Releases/pr20-17>

- i. consider re-segmenting debt portfolios based on factors that reflect risk characteristics such as by industry and geographical region, rather than only by the aging of amounts due and historical repayment profile;
- ii. consider whether securities obtained on debts such as a pledged asset or a guarantee issued by a third party, may be impacted;
- iii. consider how forward-looking adjustments should be updated to reflect the uncertainties from COVID-19; and
- iv. identify each significant credit incident(s) and/or loss(es) after the year-end date (e.g. bankruptcy of a major debtor), and consider whether each incident/loss should be an adjusting event to be recorded at year end.

### In respect of carrying amounts of liabilities

#### (e) Provisions

*Some revenue contracts may contain penalties for late or non-delivery. Coupled with the need to purchase alternative raw materials at higher prices or to replace employees who are quarantined, some companies may find the costs to fulfil contract(s) outweigh the benefits. Directors should ask management to **identify such onerous, or potentially onerous, contracts**. When determining the provision amount, directors should not only consider the penalties (if any) arising from late or non-fulfilment of these contracts, but also the enforceable *force majeure* clauses that may relieve the company from these penalties.*

*On 28 April 2020, the Monetary Authority of Singapore cautioned in the macroeconomic review that an increase in retrenchments and job losses was expected in 2020<sup>4</sup>. If a company is making plans to restructure, directors are reminded that the related expense **can be recognised only when there is a detailed formal plan and valid expectations had been set with the employees who will be affected**. Provision for future operating losses or business recovery costs is strictly prohibited.*

#### (f) Borrowings

*Due to unexpected write-downs in the carrying amount of assets and additional provisions being made, some companies may inadvertently breach loan covenants. This may result in the reclassification of the related borrowings from non-current to current liabilities, or additional margin calls by the lenders.*

To avoid last minute surprises, directors should ask management **to forecast financial performance and positions** for assessing compliance with loan covenants. In the case where a breach is possible, management should engage lenders early for waivers and/or to negotiate for re-financing arrangements. Waivers obtained after year-end cannot be used to remedy the classification at year-end.

---

<sup>4</sup> Refer to <https://www.mas.gov.sg/-/media/MAS/EPG/MR/2020/Apr/MRApr20.pdf>

## Going Concern, Disclosures and Others

### (g) Going concern

*Reduced sales and collection issues can have an immediate impact on the working capital, particularly when fixed overhead costs are substantial and cannot be defrayed.* Directors should carefully evaluate with management **the impact on projected working capital** and the company's ability to service its debt obligations when they fall due. Where necessary, directors should work with management to plan for additional or alternative sources of financing.

Cash flow projections should also be **forecasted in sufficient granularity (e.g. by month)** to ensure the company remains liquid and viable for the next 12 months and beyond. The FS may be approved many months after the financial year-end. With the rapidly changing environment, cash flow projections will need to be **updated and re-assessed before authorising the FS.**

If there are material uncertainties that cast doubt over the company's going concern, directors must make necessary and timely disclosures to inform investors.

### (h) Financial instruments

*As the prices for most commodities have fallen, in particular, oil prices that have dropped to an unprecedented low<sup>5</sup>,* companies in the energy and other commodity industries should **re-look at the economic viability** of their long-term commodity contracts, both from the financial sustainability of their counterparties and fair valuation of the contracts. Directors should also look out for any speculative activities, which may run contrary to the company's policies.

If hedge accounting is applied, directors must re-assess with management if the hedge is still effective. If a hedged forecasted transaction is no longer expected to occur, the hedge accounting should also be discontinued prospectively, with any accumulated gain or loss immediately reclassified to profit or loss.

Directors should work with management **to tailor the financial risk management disclosures to the company's actual circumstances**, moving away from the typical boilerplate disclosures. Investors ought to be informed in detail when, for example:

- the company has identified concentration of *credit risk* for certain sectors affected by the COVID-19 outbreak, even though such concentration was not previously disclosed; and
- the company's plan to manage *liquidity risk* when its cash flows from operating activities has turned negative, or if it faced difficulties in accessing cash through factoring receivables or supplier finance.

---

<sup>5</sup> Refer to [openknowledge.worldbank.org/bitstream/handle/10986/33624/CMO-April-2020.pdf](https://openknowledge.worldbank.org/bitstream/handle/10986/33624/CMO-April-2020.pdf)

(i) **Subsequent events**

Notwithstanding that the COVID-19 outbreak is a non-adjusting event for companies with 31 December 2019 year-end<sup>6</sup>, directors should pay attention to **material subsequent events that require disclosures**.

Investors should be made aware through disclosures in FS when, for example:

- a company has significant commodity inventories for which carrying values fell significantly after the year-end;
- management's plan to discontinue an operation, or temporarily downsize certain operations, after the year-end; or
- if certain acquisition or disposal of assets or businesses fell through due to inability to meet precedent conditions in the agreements after the year-end.

(j) **Government relief measures**

To address the economic concerns from the COVID-19 outbreak, many countries including Singapore have introduced relief measures to support businesses. Directors should discuss with management the applicable measures and determine their appropriate accounting treatments.

To protect jobs and help companies with immediate challenges, the Singapore Government has announced three rounds of relief measures. ISCA has published **Financial Reporting Bulletins<sup>7</sup> 5 and 6 to provide guidance on how to account for property tax rebates and job support scheme**, respectively.

ISCA, in collaboration with ACRA, have also formed a joint COVID-19 working group to address challenges faced by the accounting profession in relation to COVID-19. Guidance is published in the form of FAQs to share the working group's deliberations on the accounting and auditing issues faced. More information can be accessed [here](#).

## 2. **Internal control and audit considerations**

Under the Companies Act, directors and other officers of public companies and their subsidiaries must **devise and maintain internal accounting controls** sufficient to provide a reasonable assurance that —

- (a) assets are safeguarded against loss from unauthorised use or disposition; and
- (b) transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair FS and to maintain accountability of assets.

---

<sup>6</sup> Refer to [isca.org.sg/media/2824412/frb-2-on-accounting-implications-arising-from-covid-19-final.pdf](https://www.isca.org.sg/media/2824412/frb-2-on-accounting-implications-arising-from-covid-19-final.pdf)

<sup>7</sup> Refer to [isca.org.sg/media/2824540/frb-5-acctg-for-sg-property-tax-rebate-covid-19.pdf](https://www.isca.org.sg/media/2824540/frb-5-acctg-for-sg-property-tax-rebate-covid-19.pdf)  
[isca.org.sg/media/2824582/frb-6-acctg-for-jss-grant-final.pdf](https://www.isca.org.sg/media/2824582/frb-6-acctg-for-jss-grant-final.pdf)

In many countries including Singapore, employees are working from home. This change in work procedures may introduce gap(s) in internal controls. With travel restrictions, internal auditors may not be able to visit overseas businesses to conduct audits. This increases the risk of material misstatements in the financial statements, which could include opportunities for fraud. The ISCA's joint COVID-19 working group will be publishing some FAQs to guide accountants in business in addressing these risks.

Directors should engage management and internal auditors on **measures put in place to mitigate risks**, particularly for high risk areas such as cash management. Directors should expect management to review and **ensure adequate segregation of duties for key processes**. Audit Committees should also revise internal audit plans to prioritise the audits of high risk areas, and find ways to mitigate the risks.

For this financial year, some statutory auditors may face limitation in the scope of their work. Directors ought to work with management to facilitate the work of statutory auditors. If the issuance of the modified audit reports cannot be avoided, directors must **implement a plan to address the qualification with the aim to receive a clean audit report in the next financial year**.

Directors and management are also advised to **engage statutory auditors early to discuss the audit plan for the next financial year**. For valuations and other accounting areas that involve more judgements and estimates due to market volatility, directors are highly encouraged to **engage the help of specialists**. It is essential for directors to ensure that management provide sufficient cooperation to the statutory auditors, and for statutory auditors to invest sufficient audit efforts in addressing the risks and issues arising from the COVID-19 outbreak.

The COVID-19 outbreak in Singapore and globally has also caused challenges to how audits are conducted, including audits involving component auditors in other countries. On 20 May 2020, ACRA has issued Audit Practice Bulletin<sup>8</sup> to provide guidance in this area.

*The above factors are provided as a general guideline. They do not exhaustively define the requirements of the prescribed accounting standards in Singapore. When in doubt, directors should seek professional help. ACRA also reserves the right to conduct review of other areas in the FS as deemed necessary.*

---

<sup>8</sup> Refer to <https://www.acra.gov.sg/news-events/news-details/id/549>