

2020 Mini-Guide for Audit Committees

Hot topics that ACs and Directors need to know

SGX RegCo's Guidance and Highlights on Disclosure Practices

ACRA's Financial Reporting Surveillance Programme

Revisions to ACRA's Audit Quality Indicator Disclosure Framework

Accounting Standards

AC Resources 2020



SGX RegCo's Rule Amendments and Consultations

Amendment	Description
1. Quarterly financial reporting ("QR")	<p>QR is required for issuers:</p> <ol style="list-style-type: none"> that have a modified audit opinion on their latest financial statements (i.e. qualified opinion, disclaimer of opinion or adverse opinion); that have an audit opinion which states a material uncertainty relating to going concern on their latest financial statements; or where SGX has regulatory concerns on the issuers. <p>An issuer is no longer required to do QR if it does not fall within the above requirements. An issuer that is required to do QR for the foregoing reason would have one year grace period to commence QR.</p> <p>Where QR is not required, issuers are encouraged to provide voluntary updates to shareholders on their business performance.</p> <p>In addition, issuers that receive modified opinions¹ must provide quarterly updates on their efforts to resolve their audit issues and their boards must confirm that the impact of the audit issues on their financial statements have been adequately disclosed.</p>

Public Consultations

Title	Issues
1. Disclosure guidelines on property valuations	<ul style="list-style-type: none"> Issuers must appoint independent valuers who meet minimum qualification criteria. Property valuation reports must comply with acceptable valuation standards. Content of the summary property valuation reports must include minimum information stipulated under the Listing Rules.
2. Tightening of regulatory regime over statutory auditors	<ul style="list-style-type: none"> All issuers must minimally appoint a Singapore-based auditor to conduct the statutory audit. If issuer wishes to appoint a foreign-based auditor, a Singapore-based auditor must also be appointed to conduct the audit jointly. SGX RegCo may require appointment of a second auditor to review an issuer's financial statements when there are regulatory concerns.



1. For avoidance of doubt, if a company receives a modified opinion due to various factors (one of which relates to going concern), the update and confirmation will only be required for the other factors excluding going concern.

SGX RegCo's Guidance and Highlights on Disclosure Practices

Issues	Details
1. Assessing Suitability and Competence of Professionals/Consultants ("Professional")	<p>Audit Committee should consider the following factors when assessing the suitability and competence of the Professional:-</p> <ol style="list-style-type: none"> Relevant experience for the area of expertise; Qualifications including valid licences, permits and/or accreditation from the relevant bodies; Compliance track record of the Professional and their work; Evaluation of any actual or perceived conflict; Adequacy of resources.
2. Highlights on Disclosure Issues	<p>Disclosure requirements are dependent on the materiality assessment by the Board.</p> <ol style="list-style-type: none"> Price Sensitive or Trade Sensitive Information Issuer must consider the significance of the information in the context of the issuer's business and whether disclosure is necessary to enable trading on an informed basis to avoid the establishment of a false market. Confidential Information Announce or maintain confidentiality of information but clarify when leakage or unusual market activity occurs. Compliance with Listing Rules take precedence when negotiating confidentiality clause in contractual terms with other parties. Changes in Earnings/Prospects and Timely Issue of Profit Guidance Board have to monitor its earnings/prospects and make timely disclosure if there is deviation from information previously disclosed to shareholders. Letter of Demand Disclosure required when a material event giving rise to the claim has occurred and may materially affect the issuer's performance. Analyst Reports/Briefings Issuers must have policies in place to mitigate risk of selective disclosure. Investigation on a Director or a Key Person of the Issuer Immediate disclosure must be made on investigation or enquiry into the conduct by directors or executive officers that bring into question their suitability as directors.

Accounting Standards

SFRS(I) 16 Leases

Following the adoption of SFRS(I) 16 Leases on 1 January 2019, more leases will be recognised on balance sheets as a lease liability and a corresponding "right-of-use" (ROU) asset. From an accounting perspective:

- Directors should review the judgements and estimates applied in the adoption of the new standard. These judgements and estimates could include the incremental borrowing rates used, the termination and extension options reasonably certain to be applied, and fair valuation assumptions for ROU assets classified as investment property. Directors should assess whether they correspond with market conditions and business plans of the entity, and adequate disclosures have been made.
- ROU assets are subject to impairment testing. Directors should assess if the assumptions and estimates used in the impairment assessment are supportable and reasonably reflect the business plan, economic outlook and industry conditions.
- Directors should also understand how the added liability could impact the entity's compliance with loan covenants. Early discussions with lenders may be necessary.

Explore more:



Interest Rate Benchmark Reform

Following the financial crisis, regulators globally have set out to reform LIBOR and other interbank offer rates ("IBORs"). This shift has gathered significant pace in the past year, with greater clarity on how overnight risk-free-rates ("RFRs") will be replacing the major IBORs. These IBORs will cease to exist by end December 2021, with termination and transition to RFRs potentially before the date.

Significant effort will be required to ensure a smooth transition to the stated RFRs by end December 2021. As a start, pricing of RFR products, updates to legal language in contracts for both cash products and derivatives as well as updates to treasury and risk management systems (discount curves used for cashflows for example) will be priorities.

From an accounting standpoint, IBOR reform would impact the hedge accounting and disclosures of entities. In September 2019, the IASB issued an amendment to IFRS 9, IAS 39 and IFRS 7, which covered hedge accounting relief in the period before the reform ("Phase 1"). This covered areas such as the 'highly probable' requirement, prospective assessment, risk components identification and disclosure. The amendments are effective for period beginning on or after 1 January 2020. Phase 2, which covers the period after existing interest rate with alternative rate is currently being worked on.

Explore more:



What are the factors considered by ACRA when selecting financial statements (FS) for review?

- FS with modified audit reports that indicate potential non-compliance(s) with accounting standards;
- FS with financial performance and position that were not aligned with expectations arising from changes in, or new, accounting standards;
- FS of companies with operations that require critical judgement(s) and significant estimate(s) when accounting for their transactions; and
- FS of companies with material acquisitions and complex instruments/transactions.

What are the regulatory outcomes from ACRA's review?

- If no material non-compliance(s) found, close.
- If one or more material non-compliance(s) found, ACRA will request directors to:

	Material but less serious non-compliance(s)	Material and serious non-compliance(s)
Rectify in next year's FS	✓	✓
Rectify in next results announcement	✓	✓
Restate, re-audit and refile past year(s)' FS		✓

- If directors fail to rectify or restate properly within the timeline set or in egregious case, ACRA can:
 - apply to court to order restatement; or
 - issue warning, levy composition or prosecute.

What are ACRA's tips to directors for the review of FY2019?

- SFRS(I) 16 Leases
 - Ensure the completeness of lease population, especially for Group with many subsidiaries.
 - Assess whether lessor has substantive right to substitute assets when determining control over asset.
 - Assess if renewal and/or termination option is reasonably certain to be exercised when determining the lease term, as this will affect the present value of lease payments.
 - Avoid using one discount rate for all leases, particularly when identified assets are dissimilar.
 - If rent is adjusted based on prevailing indices or market rates (e.g. JTC leases), re-measure lease liability as and when the adjustment takes place to reflect the changes.
- SFRS(I) INT 23 Uncertainty over Income Tax Treatments
 - Assume that the tax authority has full knowledge of relevant information when recording uncertain tax provisions.
 - Assess the likelihood that the tax authorities will not accept the tax treatments.
- SFRS(I) 15 Revenue from Contracts with Customers
 - Ensure variable considerations are completely identified at contract inception and reassessed over contract period.
 - Consider the effect of time value of money from significant payment in arrears or in advance.
 - Assess whether the right to payment for performance to date exists and is enforceable.
- Impairment assessment and valuation
 - Cash flows can be projected to perpetuity when assessing impairment for goodwill and other assets with indefinite useful life, but may not be for assets with definite useful life such as property, plant and equipment.
 - Discount rate used in impairment tests must be adjusted to reflect the risks specific to asset(s).
 - Assess whether projected cash flows used in impairment tests are supportable by comparing to current year and past years' actual cash flows.
 - Disclose sensitivity analysis of key assumptions when the headroom is small and carrying value of asset is material.

Explore more (ACRA's Practice Guidance for 2019 FS):



Revisions to ACRA's Audit Quality Indicators (AQIs) Disclosure Framework

ACRA's AQIs Disclosure Framework comprises indicators to provide ACs with more insights into audit quality. ACRA has updated the framework to ensure relevance of the indicators and better meet ACs' needs. The revised AQI Framework is to be presented to ACs for audits of financial statements for periods ending on or after 31 March 2020. Early adoption is encouraged.

What are the revisions?

- 1) **Disclosure of industry average and range for AQIs on attrition rate, average years of audit experience and staff per partner/manager ratios** in lieu of AQI targets to facilitate better industry comparison;
- 2) Refinements to the following AQIs:
 - a. **Audit hours – To include % of time spent by the auditor during various audit phases** to track achievement of milestones and to assess the timeliness of auditor involvement.
 - b. **Headcount in quality control functions – To include total headcount of quality control personnel (previously limited to only partners and managers) and to present in relative terms as a % of total audit staff headcount** to better reflect the overall resources dedicated to such functions.
 - c. **Compliance with independence requirements – Removed from framework** as firms are already required to declare their independence to their audit clients annually.

Revised AQI Disclosure Framework

- 1 Audit Hours – Time spent by Audit Team Members during each Audit Phase
- 2 Experience – Years of Audit Experience and Industry Specialisation
- 3 Training – Average Training Hours and Industry Specific Training
- 4 Inspection – Results of External and Internal Inspections
- 5 Quality Control – Headcount in Quality Control
- 6 Staff Oversight – Staff per Partner/Manager Ratios
- 7 Attrition Rate – Degree of Personnel Losses

ACs are encouraged to use the framework to engage the auditor on audit quality discussions during the auditor evaluation process. Explore more:



SID AC Chapter

The AC Chapter was established in January 2017 to build capacity and improve the effectiveness of ACs. Its activities include:

- **AC Pit-Stops**
Two-hour concise training sessions to equip ACs with fundamental understanding of specific topics to ask pertinent questions of management, external and internal auditors, and other professionals.
- **Curated articles**
These articles from a wide variety of sources are available to SID members in the AC Chapter sub-portal at www.sid.org.sg/ACPublications.

Articles sub-categorised by:

1. Audit Committee
2. Risk & Compliance
3. Financial Reporting & Disclosure
4. Auditors, Assurance & Audit Quality
5. Ethics & Culture
6. Other AC Resource Links
7. Other CG Related Topics & Articles of Interest to ACs

Explore more:



2020 Professional Development Calendar for AC Members

16 January	ACRA-SGX-SID Audit Committee Seminar
13 February	AC Pit-Stop: Intangible Assets in a Tangible World
25 February	DFF: Director Financial Reporting Fundamentals
3 March	NFF: NonProfit Financial Reporting Fundamentals
5 March	AC Pit-Stop: Managing Risk in a Digital World
25 March	LED5: Audit Committee Essentials
25-27 March	SDP3: Finance for Directors (SID-SMU Directorship Programme)
26 May	AC Pit-Stop: Reviewing Financial Statements and Selecting Auditors
11 June	BDC2: Audit Committee Chairman's Conversation (by invitation only)
1 July	DFF: Director Financial Reporting Fundamentals
1-3 July	SDP3: Finance for Directors (SID-SMU Directorship Programme)
9 July	AC Pit-Stop: Leveraging A&T for Internal Control and Fraud Prevention
20 July	LED5: Audit Committee Essentials
25 August	SGD6: Financial Management and Accountability
17 September	AC Pit-Stop: Impact of International Tax Rule Changes
15 October	LED5: Audit Committee Essentials
4 November	DFF: Director Financial Reporting Fundamentals

Note: The above are professional development (PD) courses by SID which are relevant to AC members. Course dates are subject to change and the latest updates can be found at www.sid.org.sg/pd2020.



Audit Committee Seminar

The Audit Committee (AC) plays a critical role in investor protection and the proper functioning of our capital markets. In the face of corporate and governance failures, the AC must look past the face value of financial accounts.

At the annual AC Seminar, a panel of experts from ACRA, SGX and SID share their experiences on dealing with everyday challenges facing audit committees.

“Beyond the Veneer of Numbers”

While the numbers add up, there may be more than meets the eye. With increasing complexity in the way business is conducted today, AC members may find themselves in the unenviable position of trying to make sense of the data provided, as well as having to obtain additional insights through other means.

Speakers and panellists at the AC Seminar 2020:

Ong Khiaw Hong, ACRA
Bong Yap Kim, ACRA
Ng Meow Ling, ACRA
Tan Boon Gin, SGX RegCo
June Sim, SGX RegCo
Soh Gim Teik, SID
Ng Siew Quan, PwC
Veronica Eng, Keppel Corporation
Patrick Ang, Rajah & Tann Singapore LLP
Kelvin Tan, UnUsUaL Limited

The next AC Seminar will be in January 2021.