2023

Mini-Guide for Audit and Risk Committees

Hot topics that ARCs and Directors need to know

- SGX RegCo's Regulatory Guidance
- Sustainability Reporting Developments
- Areas of Review Focus for FY2022 Financial Statements
- Public Consultation for Intangibles Disclosure Framework
- SID Audit & Risk Committee Chapter

ACRA Accounting And Corporate Regulatory Authority

SID Singapore Institute of Directors

SGX Group

pwc

SGX RegCo's Regulatory Guidance

Board Diversity

- For financial years beginning from 1 January 2022, an issuer must maintain a board diversity policy that addresses gender, skills and experience, and any other relevant aspects of diversity.

Disclosure of Board Diversity Policy in Annual Report	The board diversity policy should include:
	• Targets to achieve diversity on the board;
	• Accompanying plans and timelines for achieving the targets;
	• Progress towards achieving the targets within the timelines; and
	• A description of how the combination of skills, talents, experience and diversity of its directors serves its needs and plans.

Mandatory Climate Reporting

- All issuers must conduct climate reporting on a 'comply or explain' basis for financial years commencing 1 January 2022 onwards.
- Going forward, mandatory climate reporting will be introduced in a phased approach for specific industry sectors for which climate reporting would be most impactful:

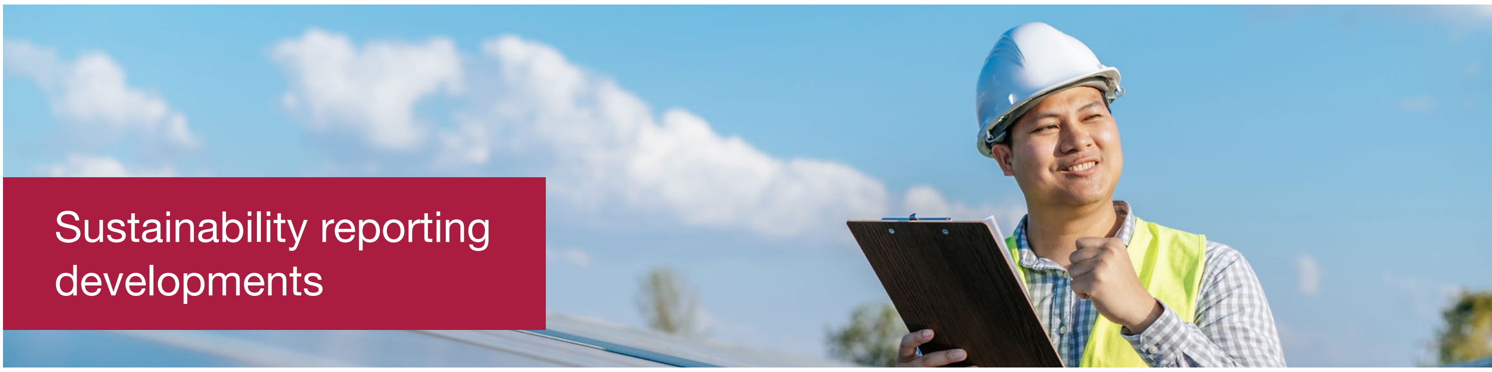
Industry Sector		For Financial Year Commencing	Calendar Year in which Sustainability Report is Published
Financial	Banking and Investment Services	1 January 2023	2024
	Collective Investments		
	Insurance		
Agriculture, Food and Forest Products	Applied Resources		
	Food and Beverages		
Energy	Energy – Fossil Fuels		
	Utilities		
Materials and Buildings	Chemicals	1 January 2024	2025
	Mineral Resources		
	Industrial and Commercial Services		
	Real Estate		
Transportation	Automobiles and Auto Parts		
	Transportation		

Sustainability initiatives and developments in Singapore

Climate change is a global challenge, and Singapore is taking firm actions and leadership to build a sustainable future.

- The Singapore Green Plan 2030 released in February 2021 charts concrete targets over the next decade, strengthening Singapore's commitments under the UN's 2030 Sustainable Development Agenda and Paris Agreement.
- The Green Finance Action Plan launched by the Monetary Authority of Singapore (MAS) in 2019 complements the Singapore Green Plan 2030 and lays out MAS' strategy to develop Singapore into a leading centre for green finance in Asia and globally.
- On 1 October 2021, Enterprise Singapore launched Enterprise Sustainability Programme to support Singapore companies, especially SMEs, in building sustainability capabilities.
- As announced in Singapore Budget 2022, carbon taxes will be raised from the current $5 per tonne of emissions to $50-80 per tonne of emissions by 2030. From 2024, businesses will be allowed to use high-quality international carbon credits to offset up to 5% of their taxable emissions.
- On 25 October 2022, Deputy Primate Minister and Minister for Finance Lawrence Wong outlined Singapore's national strategy to develop hydrogen as a major decarbonisation pathway, to support Singapore's international climate commitment to achieve net zero emissions by 2050.
- Singapore has submitted its strengthened long-term low emissions development strategy with a clear goal to achieve net zero emissions by 2050, and its updated 2030 Nationally Determined Contribution to reduce its emissions to 60 million tonnes of carbon dioxide equivalent in 2030, to the United Nations Framework Convention on Climate Change at COP27 in November 2022.

The Singapore Green Plan 2030 and the related governmental measures such as the raising of carbon taxes should bring climate change and decarbonisation into sharp focus for entities. Entities should assess its climate-related risks and opportunities, and the associated implications on their businesses, including government support in relation to transitioning to a low-carbon economy. In managing climate transition risks, entities should proactively take actions to mitigate their emissions. It is important that entities measure their emissions, develop decarbonisation plans and where possible, set science-based targets which help to provide a clearly defined pathway for entities to reduce their greenhouse gas emissions.



Sustainability reporting developments

In 2016, SGX introduced mandatory sustainability reporting on a ‘comply or explain’ basis for listed companies effective for the financial year (FY) ending on or after 31 December 2017. According to the Sustainability Reporting Review 2021[1], Global Reporting Initiative was used by 99% of Singapore issuers which disclosed the standards used in their sustainability reports.

In December 2021, SGX enhanced the reporting regime by mandating reporting on climate and diversity for listed companies effective 1 January 2022. Issuers are required to provide climate-related disclosures based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD developed recommended disclosures across 4 pillars: governance, strategy, risk management, and metrics and targets. The TCFD disclosures include scenario analysis, taking into consideration a 2°C or lower scenario, disclosures of Scope 1 and Scope 2, and if appropriate, Scope 3 greenhouse gas emissions.

All issuers must provide climate reporting on a ‘comply or explain’ basis in their sustainability reports from the financial year commencing 2022. Climate reporting will subsequently be mandatory for issuers in the (i) financial, (ii) agriculture, food and forest products, and (iii) energy industries from FY2023. The (iv) materials and buildings, and (v) transportation industries must do the same from FY2024.

Other key changes effective 1 January 2022 include requiring:

- Issuers to subject sustainability reporting processes to internal review.
- All directors to undergo prescribed training on sustainability.
- Sustainability reports to be issued no later than 4 months after the end of the financial year unless the information are subject to independent assurance, in which case, the sustainability reports can be issued no later than 5 months.
- Issuers to set a board diversity policy that addresses gender, skill and experience, and other relevant aspects of diversity. Issuers must also describe the board diversity policy and details such as diversity targets, plans, timelines, and progress in their annual reports.

In June 2022, ACRA and SGX set up a Sustainability Reporting Advisory Committee (SRAC) to develop a roadmap for wider implementation of sustainability reporting for Singapore-incorporated companies, beyond SGX-listed companies in response to a call to provide greater transparency and assurance on ESG-related information. SRAC will also provide inputs on the suitability of international sustainability reporting standards for implementation in Singapore.

In September 2022, MAS and SGX launched a digital disclosure portal, ESGenome, to support companies in ESG disclosure process. ESGenome helps to streamline sustainability reporting and enhance investor access to ESG data. ESGenome is one of the initiatives under Project Greenprint which is a collection of initiatives that aims to harness technology and data to enable a more transparent, trusted and efficient ESG ecosystem to enable green and sustainable finance.

Globally, there have been various ongoing developments in sustainability reporting. On 21 March 2022, the US Securities and Exchange Commission (SEC) proposed rules to enhance and standardise climate-related disclosures. On 31 March 2022, the International Sustainability Standards Board (ISSB) issued two exposure drafts on sustainability disclosure standards with an aim to develop a comprehensive global baseline of sustainability disclosures. On 29 April 2022, the European Financial Reporting Advisory Group (EFRAG) published thirteen exposure drafts on European sustainability reporting standards as part of the Corporate Sustainability Reporting Directive. These “big three” proposals would each require expansive sustainability disclosures. All three proposals were subject to public comment periods that have now closed.

On 24 March 2022, IFRS Foundation and Global Reporting Initiative (GRI) announced a collaboration agreement, under which their respective standard-setting boards, the ISSB and the Global Sustainability Standards Board (GSSB), will seek to coordinate their work programmes and standard-setting activities. The agreement, in the form of a Memorandum of Understanding, reflects the importance of ensuring compatibility and interconnectedness of investor-focused baseline sustainability information that meets the needs of the capital markets, with information intended to serve the needs of a broader range of stakeholders.

[1] SGX RegCo and NUS Business School, Sustainability Reporting Review 2021 in May 2021: https://bschool.nus.edu.sg/cgs/wp-content/uploads/sites/7/2021/05/SGX-CGS-Sustainability-Reporting-Review-2021-Presentation-of-Findings.pdf

What can the Audit Committee (AC) consider in overseeing the financial reporting process relating to increasing focus on climate and other ESG-related risks?

Climate change can have a material impact on an entity's business model, cash flows, financial position, and financial performance. The financial statements are a key source of information for stakeholders to understand the financial impact of climate-related risks and opportunities on an entity. As AC plays a vital role in overseeing financial reporting of listed companies, it is important that AC understands and evaluates the steps taken by management in addressing these matters in their financial reports. Some key questions in relation to climate change that the AC can ask when overseeing the financial reporting process include but are not limited to:

- How has management assessed the financial impact of the entity's climate-related risks and opportunities, including the entity's commitments and plans to tackle climate change?
- Have the impacted items been appropriately recognised, measured and disclosed in the financial statements?
- Where the entity has used green instruments such as sustainability-linked loans, carbon credits and renewable energy certificates, has management assessed the appropriateness of the accounting treatment and disclosures of such instruments in the financial statements?
- Has management considered probability-weighted scenarios in its cash flow projections used in financial reporting so as to address increased uncertainties arising from climate risks and opportunities?
- Is there consistency between the entity's sustainability report and financial statements, including key estimates, assumptions and judgement? For example, there should be consistency in the key estimates and assumptions used in the cash flows for climate scenario analysis and those used for impairment assessment.

With increasing calls for greater transparency on the impact of climate change in the entities' financial statements by various stakeholders, the AC plays a critical oversight role in ensuring the robustness of management's assessment of the impact arising from climate change. The AC should also discuss with the internal auditor and external auditor to understand whether there are any findings, recommendations, and ensure that the impact of climate and other ESG-related risks had been appropriately assessed. Through engagement with the auditors, the AC can gain valuable insights to assist them in executing their governance responsibilities.

On 28 October 2022, the Institute of Singapore Chartered Accountants (ISCA) issued a technical bulletin entitled 'Addressing climate-related risks in financial statements and audits of such financial statements' which seeks to raise awareness on the need to consider the impact of climate-related risks on an entity's business and operating environment, and their potential accounting and auditing implications on the entity's financial statements. The bulletin includes considerations of key areas that might be impacted by climate risks such as impairment of assets, sustainability-linked loans, provisions, contingent liabilities, disclosures about assumptions and estimates, judgements and going concern assessment. It also contains an illustrative example of how climate-related risks could affect the application of the principles of the financial reporting standards and auditing standards.

Key considerations on sustainability reporting

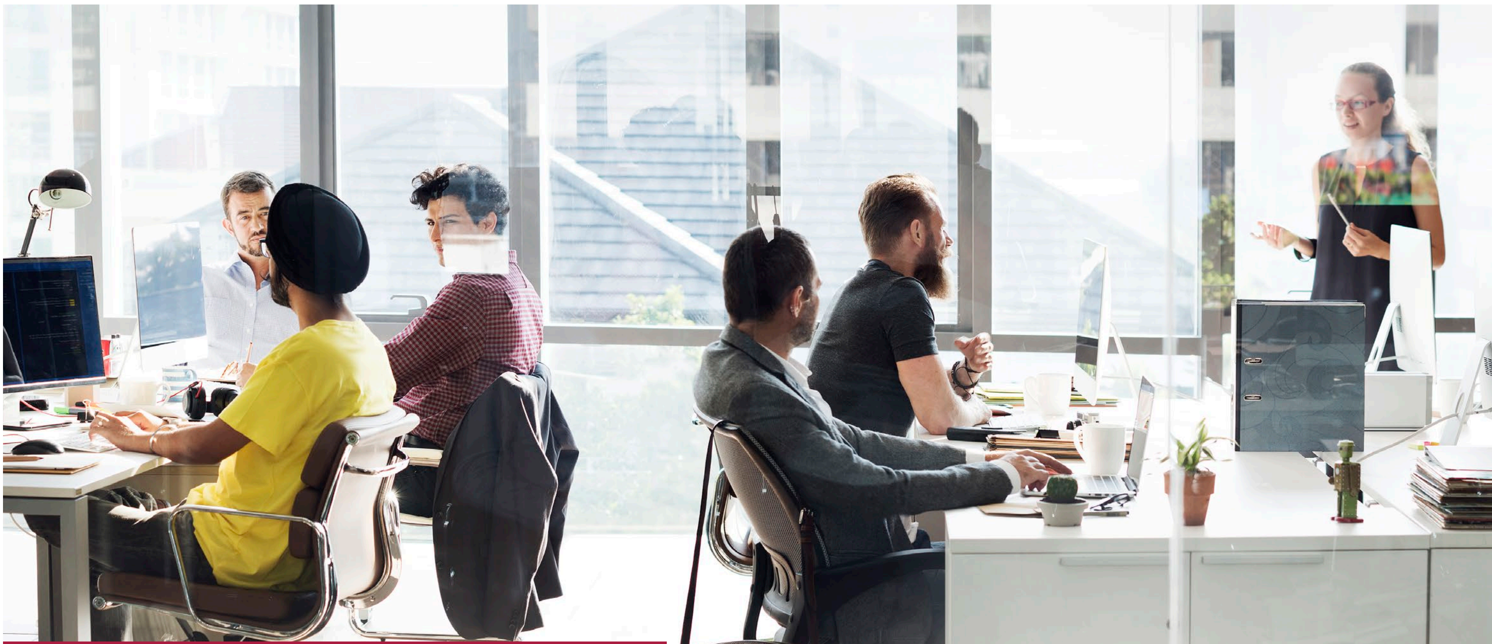
The governance and oversight of sustainability reporting might be assigned to a specific committee within the organisation. We have outlined some of the key areas and potential questions that the committee which performs the oversight role can ask in the following table:

Key areas	Potential questions
Overseeing ESG reporting and disclosures	1. What sustainability reporting regulations (e.g. SGX, MAS, EFRAG, SEC) is the entity/group subjected to now and in the future? 2. How has management addressed the most updated sustainability reporting requirements (e.g. GRI 2021)? 3. Has management identified the key ESG risks and opportunities, and also in line with the chosen standards? 4. Given that SGX has mandated climate reporting, which is aligned to the TCFD framework, has gap analysis to SGX requirements been performed? 5. How is management preparing for increased regulatory disclosure requirements? 6. How do the disclosures in the sustainability report link to that of the financial statements?
Overseeing ESG processes and controls	1. What controls are in place to ensure the reliability and completeness of ESG data? 2. What additional resources and systems may be necessary to implement or enhance ESG processes and controls? 3. What is the internal audit's involvement, their findings and recommendations?
Overseeing ESG assurance	1. What is the entity's plan for assurance to enhance confidence over its ESG reporting? For example, has management considered expanding the scope of assurance coverage over time? 2. How is management keeping abreast of new and emerging regulatory assurance requirements? 3. As an entity listed on SGX is required to subject its sustainability reporting process to internal review, what is the internal audit's plan, scope of review, findings and recommendations?
Building ESG expertise and capabilities	1. Are there personnel with appropriate expertise to identify and evaluate impact of ESG risks and opportunities on the entity's strategy and operations? 2. What are the entity's plans for training and upskilling where directors can better understand how ESG can fit into the overall business strategy and appropriately manage governance oversight responsibilities?

ESG risks and opportunities can have an impact on the entity's operations, including its ability to attract new businesses, raise capital and obtain financing. Sustainability reporting is not only a compliance exercise but is of strategic priority.

In April 2022, ISCA published ISCA Climate Disclosure Guide – Taking First Steps Towards Climate-related Disclosures. This guide provides practical guidance on how to adopt the TCFD recommendations and covers the learning experiences of advanced adopters. It also features disclosures sourced from local forerunners and global exponents that illustrate how the various recommended disclosures can be met.

In May 2022, PwC and the Centre for Governance and Sustainability at the National University of Singapore published a joint study, Sustainability Counts: Understanding sustainability reporting requirements across Asia Pacific and insights on the journey to date. This study provides insights from across the largest 650 listed companies in Asia Pacific by reviewing key sustainability reporting elements based on sustainability reports issued in 2021. These findings offer guidance in areas that may require additional focus as companies continue to develop consistent, comparable and trusted ESG information in the upcoming reporting season.



Areas of Review Focus for FY2022 Financial Statements

2022 has been a dynamic and challenging year. In addition to the continuing impact from the COVID-19 pandemic, geopolitical uncertainties, macroeconomic uncertainties and climate change movements have impacted financial reporting and audit. In response, ACRA has issued its 2022 Practice Guidance to highlight pertinent financial reporting areas that Audit Committees (ACs) should pay closer attention to in their reviews of the 2022 financial statements (FS) and oversight over the audit processes.

01. Geopolitical uncertainties

Key risks from geopolitical uncertainties include supply chain disruption, trade sanctions, retaliatory measures and increased cost of raw materials and prices.

These risks may impact financial reporting areas such as provisions for onerous contracts and delayed/cancelled deliveries to customers, inventory obsolescence, impairment on non-financial assets, expected credit loss on receivables and assessment of control or significant influence over significant investments.

02. Macroeconomic uncertainties

Key risks from macroeconomic uncertainties include inflation, rising interest rates and discount rates.

These risks may affect companies' computations of value-in-use or fair value less costs of disposal for impairment assessment. If companies are highly leveraged, it may also affect their compliance with debt covenants and going concern assessments.

03. Climate change movements

Key risks from climate change include new regulations, increased costs of operation or production, changing consumer preference towards sustainable products and discontinuation of carbon intensive operations.

These risks may lead to reduction in useful lives or write down in value of energy-inefficient equipment. They may also create constructive climate obligations or commitments to be recognised as provisions or disclosed as contingent liabilities, respectively.

This year, ACRA has expanded the guidance to cover areas ACs should pro-actively engage their external auditors on, to drive sustained improvement in audit quality. They include risk assessment of company (including fraud risk), group audits, use of technology in audits, ensuring auditor's independence and communicating audit inspection findings.

Increase in transparency of audit inspection findings

The audit work of external auditors is subject to inspection by ACRA under Practice Monitoring Programme. With the passing of the Accountants (Amendment) Bill in October 2022, ACRA will require public accountants who have obtained "Not Satisfactory" inspection outcome to disclose their audit inspection findings to the audit client of the inspected engagement. We target for this change to take effect in 2Q2023.

With such information, ACs are encouraged to understand the root causes of the inspection findings and the remediations taken by the public accountants to avoid recurrence. ACs should also assess implications to the company's financial reporting and future audits approaches and procedures, where applicable. This will enable the AC to assess the audit firm's commitment towards the delivery of high-quality audits.

For ACRA's Practice Guidance to guide directors' review of 2022 FS:

For ISCA's Bulletin on addressing climate-related risks in financial reporting and audits:

Public Consultation for Intangibles Disclosure Framework

The Intangibles Disclosure Industry Working Group[1] together with ACRA and the Intellectual Property Office of Singapore, have launched a public consultation on a proposed Intangibles Disclosure Framework (Framework). The public consultation will run until 28 February 2023.

The Framework aims to help businesses identify and disclose their intangibles, such as technologies, brands and data. This will help businesses to communicate and unlock the value of their intangibles to maximise their economic potential, thereby contributing to their overall business strategy. The Framework also aims to provide stakeholders with standardised information about a company's intangibles, so that more informed assessments of business and financial prospects can be made. By increasing access to financing, the Framework also aims to facilitate the commercialisation of intangibles as a driver of economic growth.

For public consultation documents:

For submission of comments on the Framework:

[1]The Intangibles Disclosure Industry Working Group is an industry-led body which comprises representatives from eight industry associations from banking, valuation, legal, investment, intellectual property and accounting sectors.

SID Audit & Risk Committee (ARC) Chapter

The Audit & Risk Committee (ARC) Chapter was set up with the objective of building capacity and improving the effectiveness of ARCs. It is a community of people involved with ARCs – ARC chairmen and members, management personnel in companies who provide support to or interact closely with ARCs, and professionals who provide support to ARCs. The ARC Chapter aims to provide a platform for active discussion on issues relevant to ARCs with a view to helping ARCs carry out their roles effectively; develop thought leadership for ARCs through articles in the SID Directors Bulletin, press and other publications; contribute to the professional development of ARCs through courses and seminars; and advocate on issues that are relevant to ARCs.

SID invites you to learn more about the specially-curated initiatives and programmes of the ARC Chapter, and to register your interest. This network is open to SID members only and there are no additional membership or joining fees.

Kindly indicate your interest for any of our networks (under the Profile tab) by logging into your SID Member Account.

Write to membership@sid.org.sg for more information on SID membership and our networks.

2023 Professional Development Calendar for ARC Members

11 January	Audit and Risk Committee Seminar (Jointly organised by ACRA, SGX, SID)
24 February	PCP: Climate Risk Reporting (ARC Pit-Stop)
2 March	DFF: Director Financial Reporting Fundamentals (Fundamentals Programme)
15-17 March	SDP3: Finance for Directors (SID-SMU Directorship Programme)
15 March	LED 5: Audit Committee Essentials (Listed Entity Director Programme)
20 April	PCP: Cyber Risk (ARC Pit-Stop)
25 May	PCP: Financial and Tax Resilience (ARC Pit-Stop)
13 July	LED 5: Audit Committee Essentials (Listed Entity Director Programme)
25-27 July	SDP3: Finance for Directors (SID-SMU Directorship Programme)
17 August	PCP: Sustainability Reporting and Assurance (ARC Pit-Stop)
28 August	SGD6: Financial Management and Accountability (SID-SMU Directorship Programme)
7 September	Director Financial Reporting Fundamentals (Fundamentals Programme)
13 October	LED 5: Audit Committee Essentials (Listed Entity Director Programme)
By invitation only	Audit Committee Chairman's Conversation (Board Chairman Conversations)

Note: The above are professional development courses by SID which are relevant to board members who deal with audit and risk issues. Course dates are subject to change and the latest updates can be found at: www.sid.org.sg/pd

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