

ACRA Regulatory Updates

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FRSP Report

Findings from 1 April
2020 to 31 March 2022

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Practice Guidance

Areas of Review
Focus for FY2022
Financial Statements

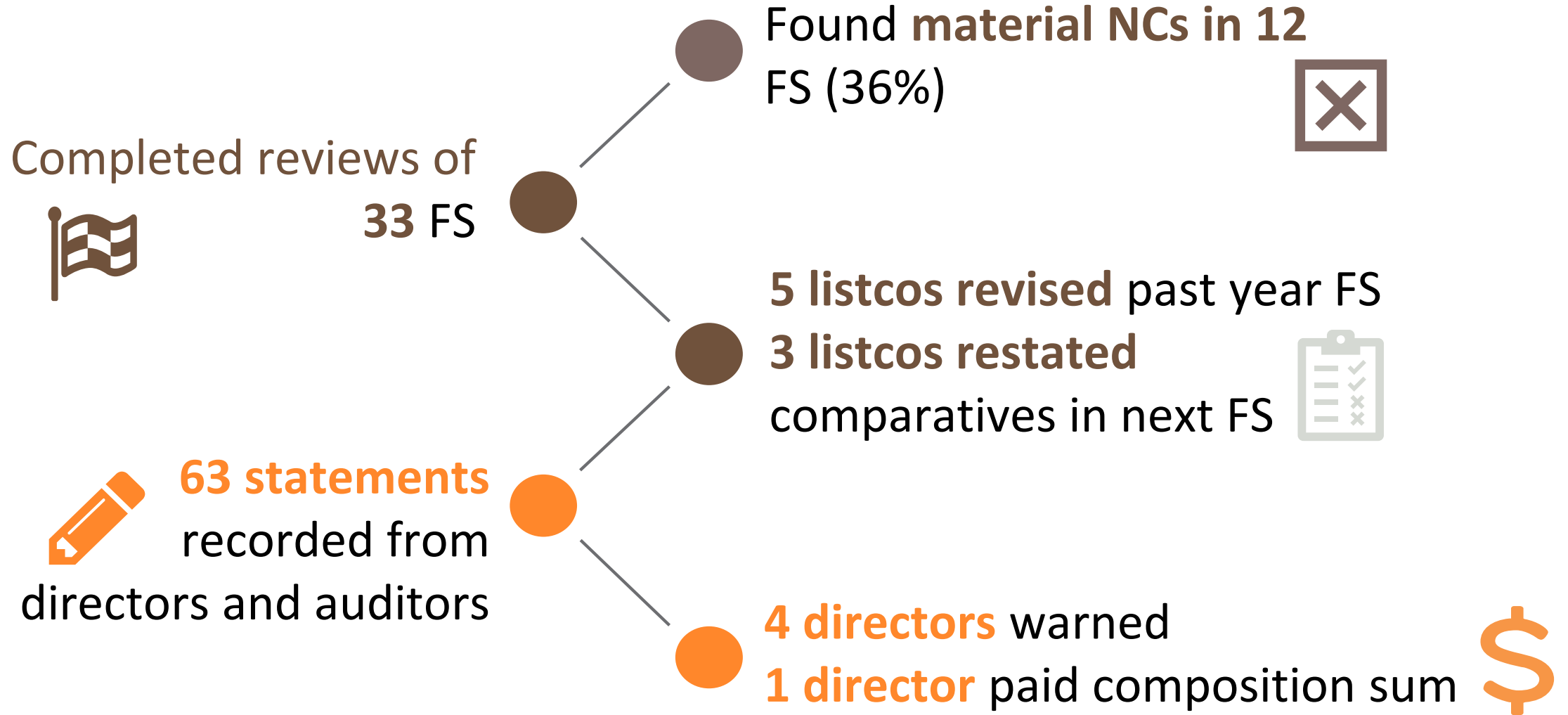
ACRA's FRSP Report



To
access:



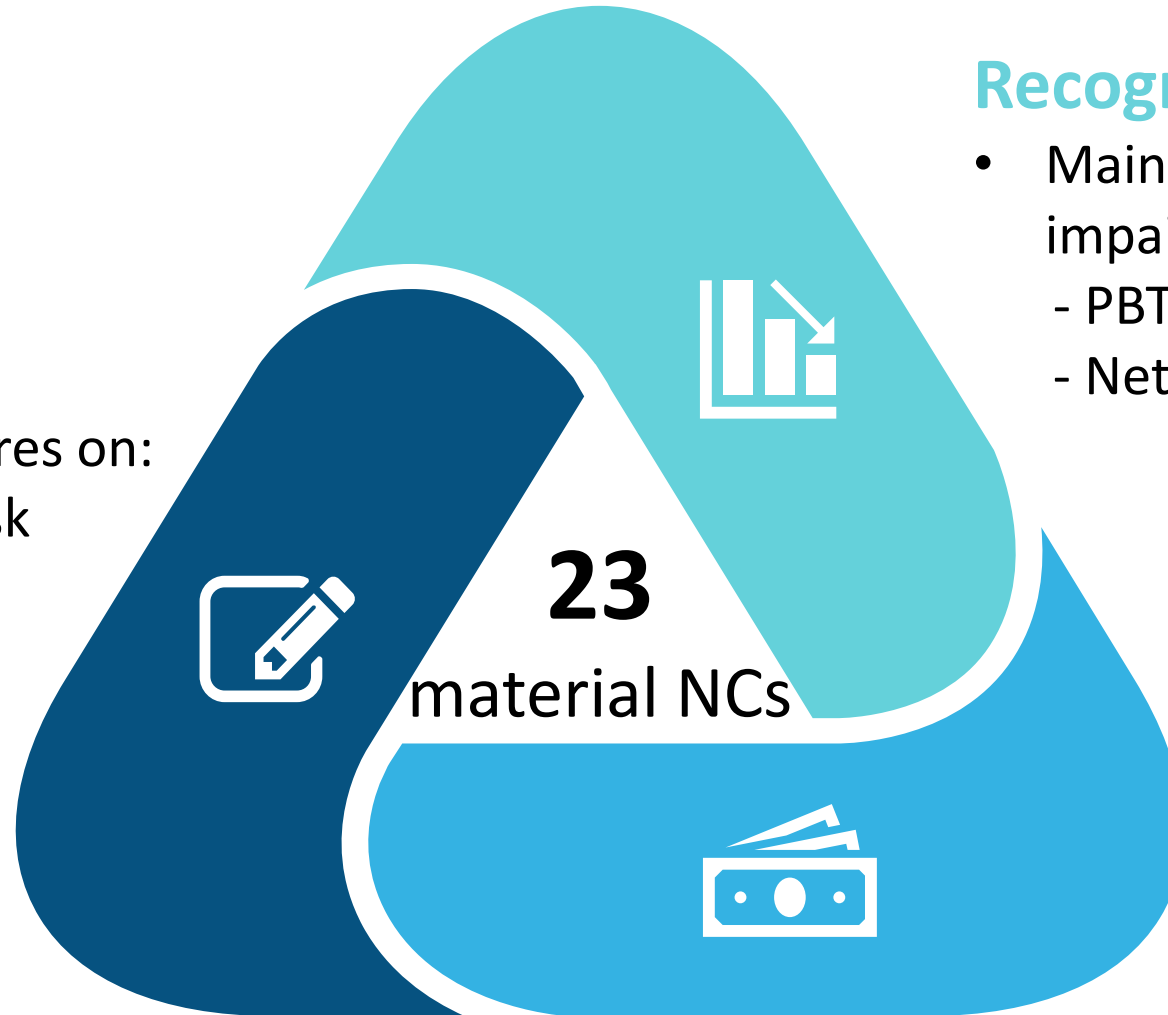
FRSP REVIEWS (1 APR 2020 TO 31 MAR 2022)



Disclosures

Insufficient disclosures on:

- Concentration risk
- Fair value measurement
- Gain on disposal



Recognition & Measurement

- Mainly business valuation, impairment and revenue recognition
 - PBT adjusted 13% to 576%
 - Net assets adjusted 3% to 32%

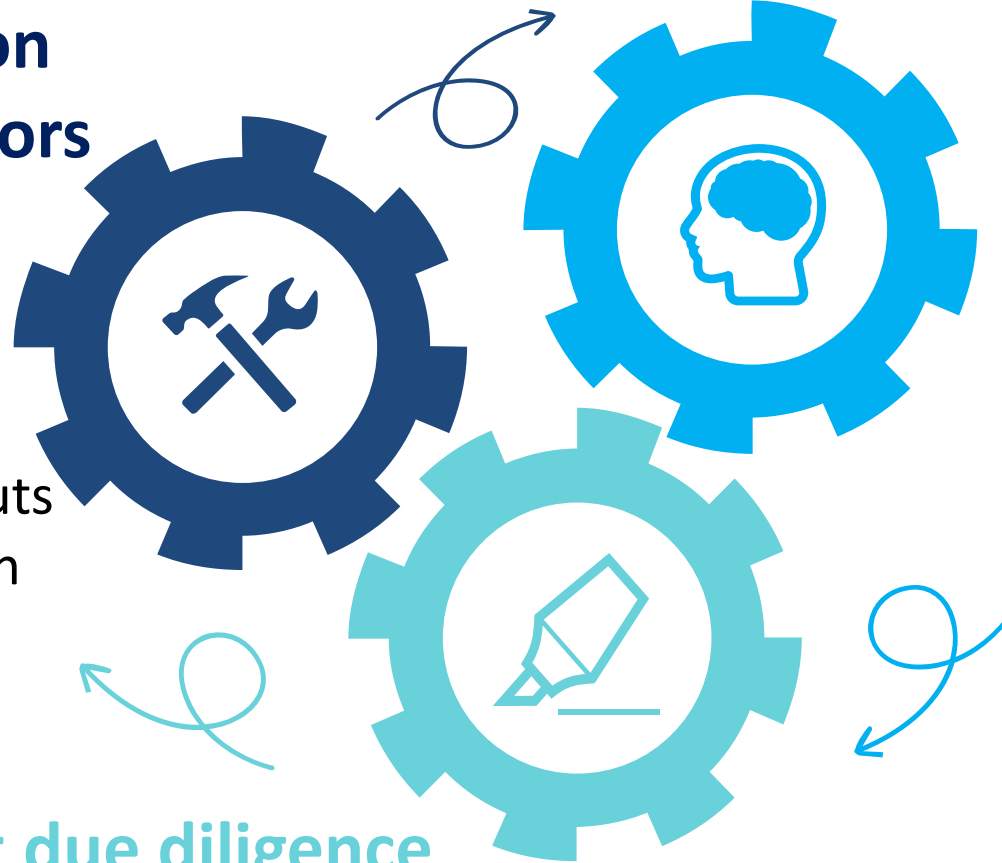
Presentation

Change operating cash flows from positive to negative, or vice versa

ROOT CAUSES OF NON-COMPLIANCES

Lack of action taken on issues raised by auditors

- a) Auditors disclaimed on directors' 'conservative' methodology
- b) Management unable to sufficiently support inputs used in VIU computation



Knowledge gap

- a) Change in use from DP to IP recorded in wrong year
- b) Intra-group balances and transactions not eliminated
- c) Different accounting treatments by the Group and a listed subsidiary for the same property under development

Insufficient due diligence

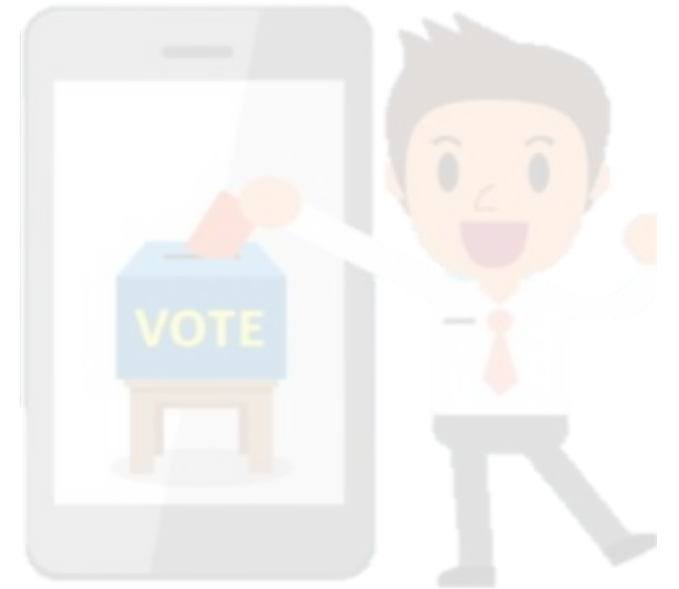
- a) Cash flows on other payables not separately identified in CFS
- b) Purchase option not included in the lease computation

In FY2021, how many SG-listed companies voluntarily adjusted prior year profits due to errors?

A. Less than 5

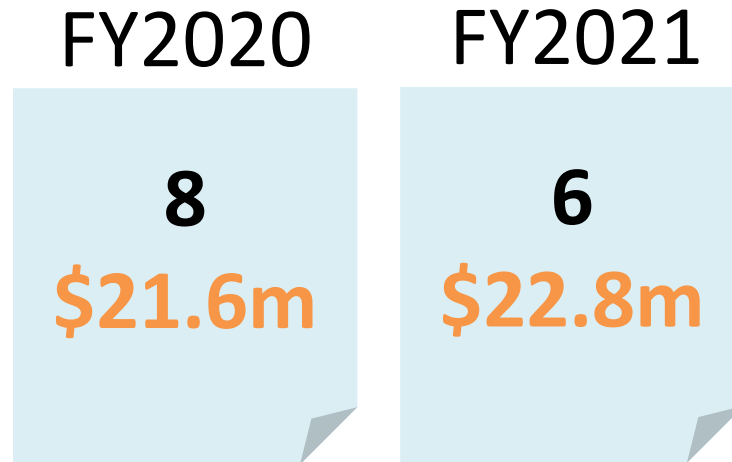
B. 5 to 9

C. 10 or more



PRIOR YEAR ADJUSTMENTS (PYA) DUE TO ERRORS

Of 594 SG-listed companies



Prior year net profits were adjusted by 0.1% to **97.1%**



1 Co did PYAs in 3 years
(FY18, FY20 & FY21)



What are the reasons cited?

COMMON ERRORS CITED

Root causes observed from FRSP

Wrong input used in calculation of recoverable amount
2 cases - \$19.6m adjustments to PBT



Knowledge gap



Incorrect recognition of legal claims
1 case - \$6.4m adjustments to PBT



Insufficient due diligence

Incorrect recognition of revenue
2 cases - \$0.3m adjustments to PBT



Lack of action taken on issues raised by auditors
(3 out of 8 cases)



Incorrect liabilities recognised
3 cases - \$9.5m adjustments to PBT

ACRA's Practice Guidance

FINANCIAL REPORTING PRACTICE GUIDANCE NO. 1 of 2022
(Issued on 4 NOVEMBER 2022)

AREAS OF REVIEW FOCUS FOR FY2022 FINANCIAL STATEMENTS

Under the Financial Reporting Surveillance Programme, ACRA reviews financial statements (FS) of Singapore-incorporated companies for compliance with the prescribed accounting standards in Singapore.

To guide directors, especially those in Audit Committees (ACs), in reviewing FS, we are publishing the proposed areas of review focus for FY2022 FS. ACs are advised to pay close attention to these emerging risks and trends.

We believe there are various areas where ACs should engage the external auditors and thus this year, we have included these areas. Such proactive and substantive engagements will help enhance the quality of audits.

To
access:





Geopolitical and
Macroeconomic
Uncertainties



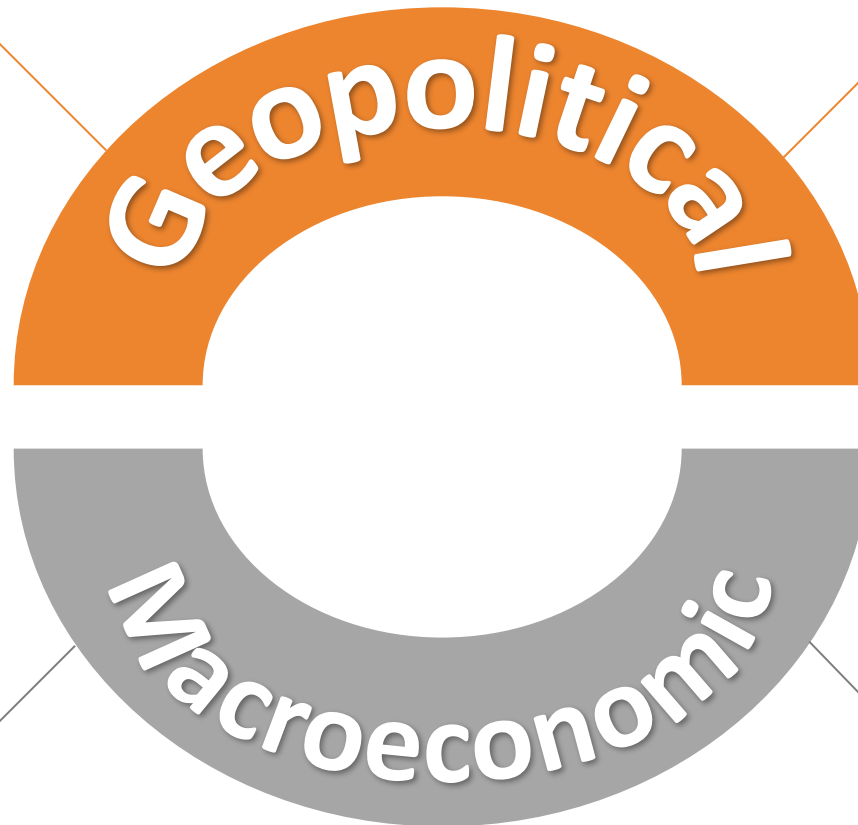
Impact from
Mandatory
Climate Reporting



Increase Transparency
on ACRA's Inspections
of Auditors

KEY RISKS

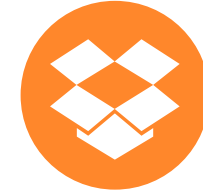
- Trade sanctions
 - Supply chain disruptions
 - Retaliatory measures
 - Increased cost of raw materials and prices
-
- Inflation
 - Rising interest rates



ACCOUNTING IMPACT



Provisions



Inventories



Impairment
of assets



Impairment
assessment



Debt
covenants



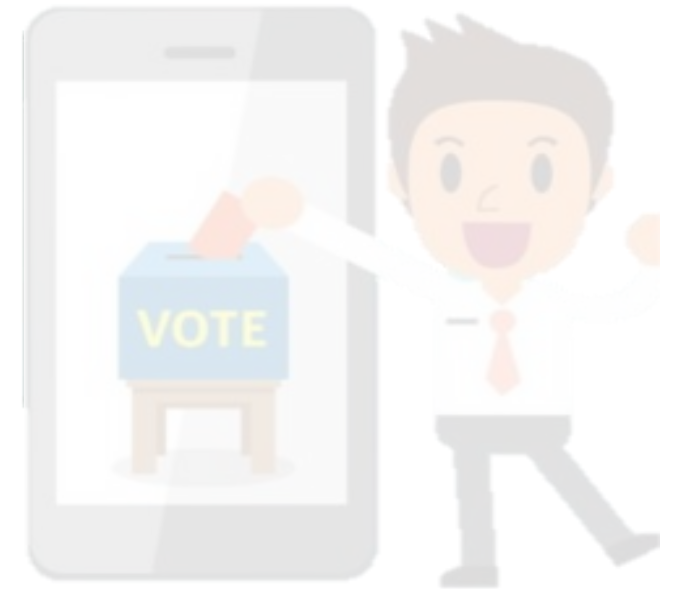
Going concern
assessment

How many SG-listed companies (that are not financial institutions) had **trade receivables exceeding 100% of revenue** in FY2021?

A. Less than 5

B. 6 to 9

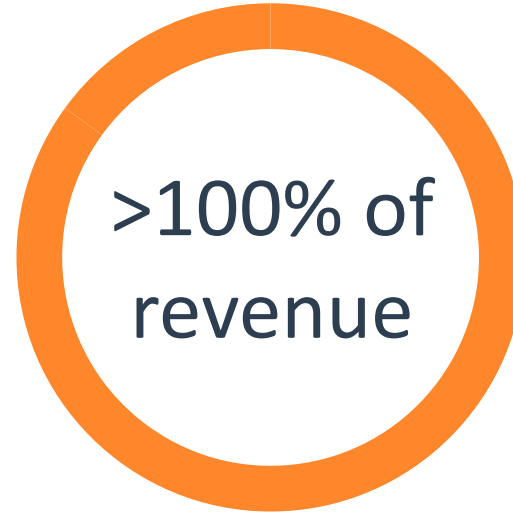
C. 10 or more



Out of 594 SGX-listed companies



\$3.0 billion
13 listed Cos



\$1.4 billion
11 listed Cos



\$0.7 billion
6 listed Cos¹

¹ Two out of these six listed companies received modified audit opinions on the recoverability of these receivables.

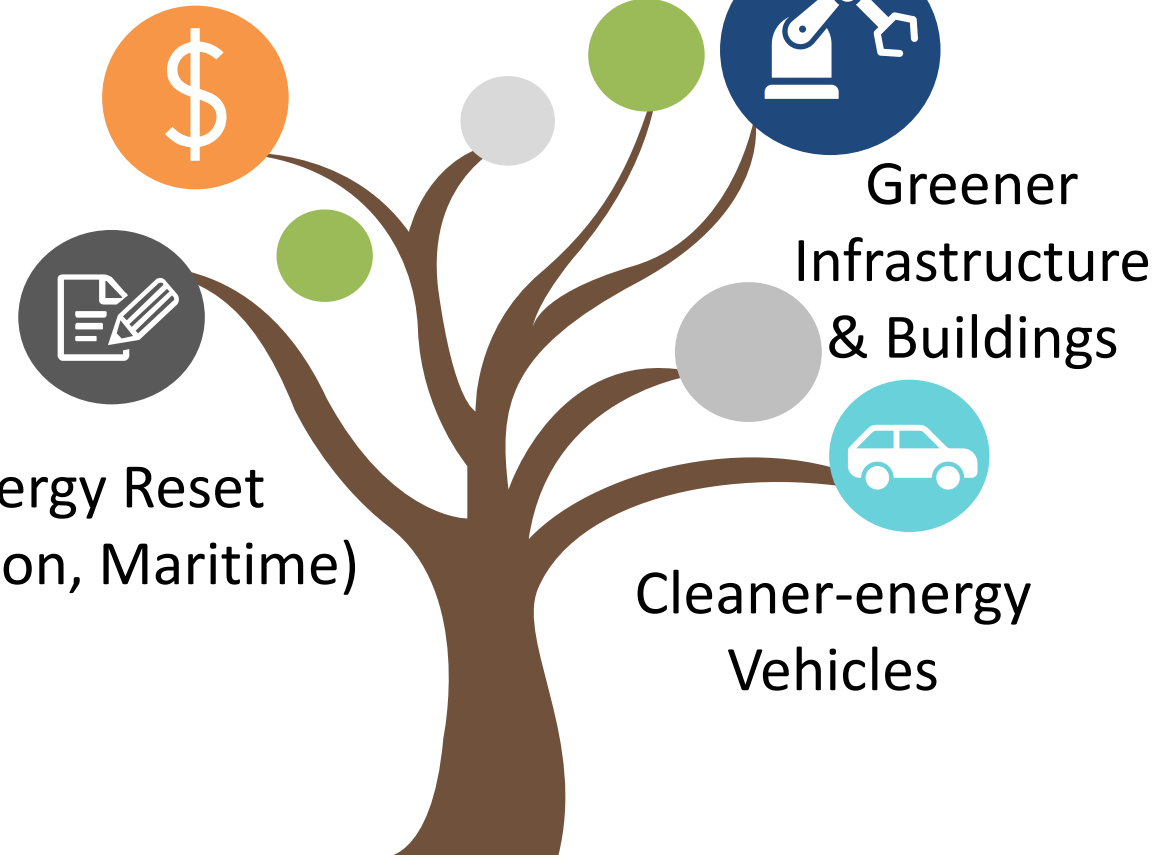
Singapore Green Plan 2030

- Charts ambitious and concrete targets over the next 10 years
- Aims to achieve long-term net zero emissions, before 2050



Targets for Green Plan

Green Citizenry
(Consumes and Wastes Less)



Energy Reset
(Aviation, Maritime)



Greener
Infrastructure
& Buildings



Cleaner-energy
Vehicles

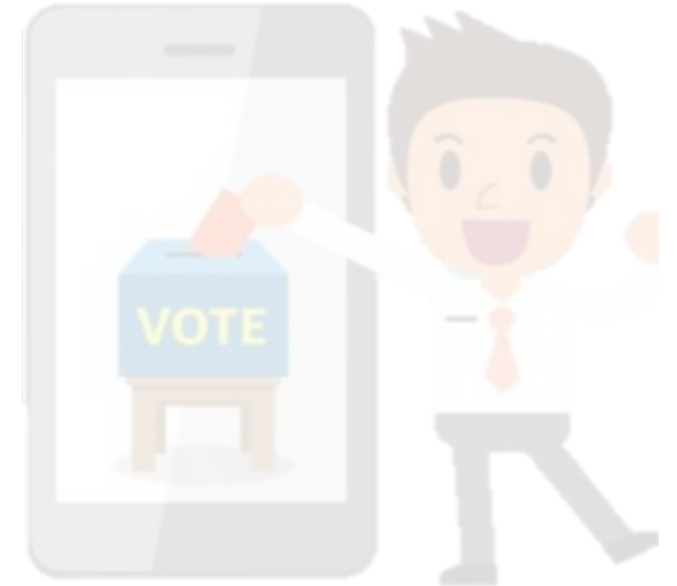
All 30 companies in Straits Times Index prepare sustainability reports. 28 set targets to reduce carbon emissions.

How many of them mentioned “climate” at least once in **their financial statements?**

A. Less than 10

B. 10 to 20

C. 20 or more



WHERE 'CLIMATE' WAS MENTIONED (IN 3 OF 5 FINANCIAL STATEMENTS)

39. Critical Accounting Estimates and Judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable according to circumstances and conditions available. The existing and potential impacts arising from climate change and the COVID-19 pandemic have been considered when applying estimates and assumptions in the preparation of the financial statements, including the Group's assessment of impairment of assets. Given the uncertainty of the impact of COVID-19, the actual results may differ from these accounting estimates.

The estimates and assumptions that have a significant effect on the reported amounts of assets and liabilities, and income and expenses are discussed below.

HOW IS CLIMATE SCENARIO ANALYSIS RELEVANT TO FINANCIAL REPORTING?

Climate scenario analysis

> 10 years

Capital budgets

5 - 10 years

Project plans

2 - 5
years

Operational plans

0 - 2
years

Examples of financial impact

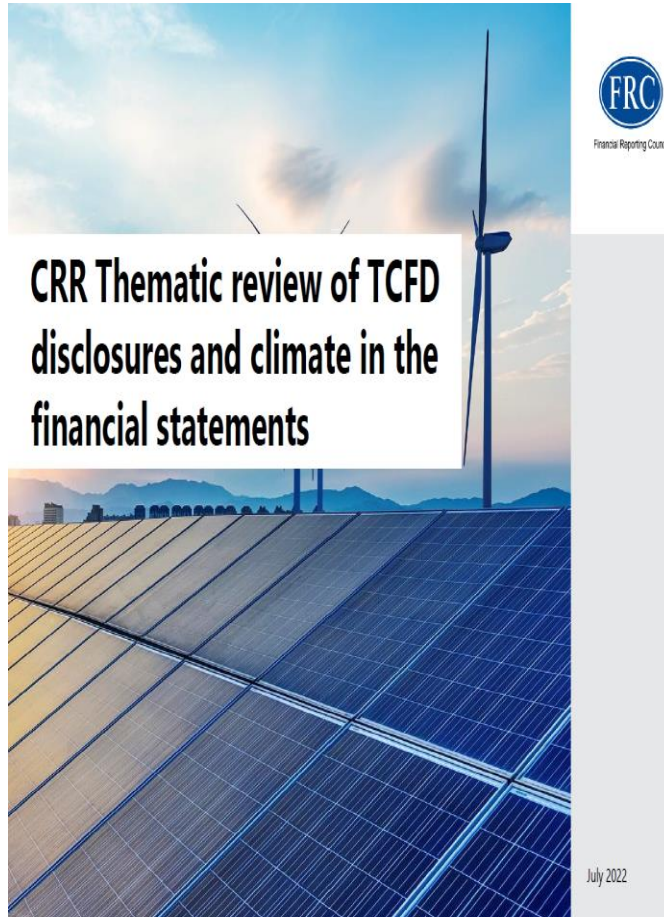
Scenarios can help inform direction of financial impact. Assess whether climate-related uncertainties should be factored in measurements of assets.

Understand company's strategy and shift in capital expenditure. This may inform us of change of useful life.

Evaluate specific planned responses in management's budget. Consider in value in use calculation.

Near term climate-related impact to revenues, costs, measurement of assets, recognition of liabilities and disclosures.

Credit: PwC



UK regulator's findings on 2021 FS (issued July 2022)

- First-year mandatory TCFD disclosures for premium listed companies in the UK.
- **22 of 25 sampled FS made reference to climate change in FS**, up from 6 of 24 sampled FS in 2020 review.
- Existing requirements of IFRS provide **clear framework** for incorporating the risks of climate change into financial reporting.
- More can be done to improve disclosures.

THREE WAYS TO IMPROVE FS DISCLOSURES



EXPLAIN IMPACT TO BALANCE SHEET

Explain clearly how the effects of different global warming scenarios, and their own net zero commitments, may affect the valuations

HIGHLIGHT LONGER TERM IMPACT

Highlight longer-term impact of climate change on estimation uncertainties

REFLECT CHANGE TO SEGMENT REPORTING

Where applicable, reflect new management reporting from climate change and transition

EXPLAIN IMPACT TO BALANCE SHEET

Rolls-Royce Holdings plc, Annual Report 2021, page 118:

Items that may be **impacted** by climate-related risks, but are **not considered to be key areas** of judgements or sources of estimation uncertainty .. :

Useful lives of assets – ...could be reduced by climate-related matters...as a result of physical risks, obsolescence or legal restrictions...

Inventory valuation – Climate-related matters may affect the value of inventories as they become obsolete... as a result of decline in selling price or a reduction in demand...

Share-based payments – Executive leadership remuneration packages will be impacted and measured against a new sustainability metric...This could impact the future amount and timing of ... share-based payment expenses...

Explained why
not key areas

& how each
area might
be impacted

HIGHLIGHT LONGER-TERM IMPACT (1)

Rio Tinto plc, Annual Report 2021, page 155

"In developing its commodity price forecasts, the Group considers three strategic scenarios with differing underlying assumptions about geopolitics, technology and society. As existing climate policies in many countries are not aligned with achieving the Paris Agreement, only one of the three strategic scenarios assumes a temperature increase of well below 2°C. The three scenarios include differing assumptions on carbon pricing and result in differing commodity price forecasts. Our central case commodity price forecasts represent a blend of the three scenarios. As a consequence, our central case is not aligned with the goals of the Paris Agreement. These central case commodity price forecasts are used pervasively in our financial processes including impairment testing, estimating remaining economic life, and discounting closure and rehabilitation provisions.

Stated that central case was not aligned with Paris-agreement goals

Disclosed areas impacted

HIGHLIGHT LONGER-TERM IMPACT (2)

Rio Tinto plc, Annual Report 2021, page 243:

.....

While keeping all inputs constant, we have flexed the cash flows to reflect the carbon and commodity prices generated by the one scenario that we believe is consistent with the goals of Paris agreement. The net present value of the post-tax cash flows would have been US\$58 million greater under this interpretation of Paris-aligned accounting.

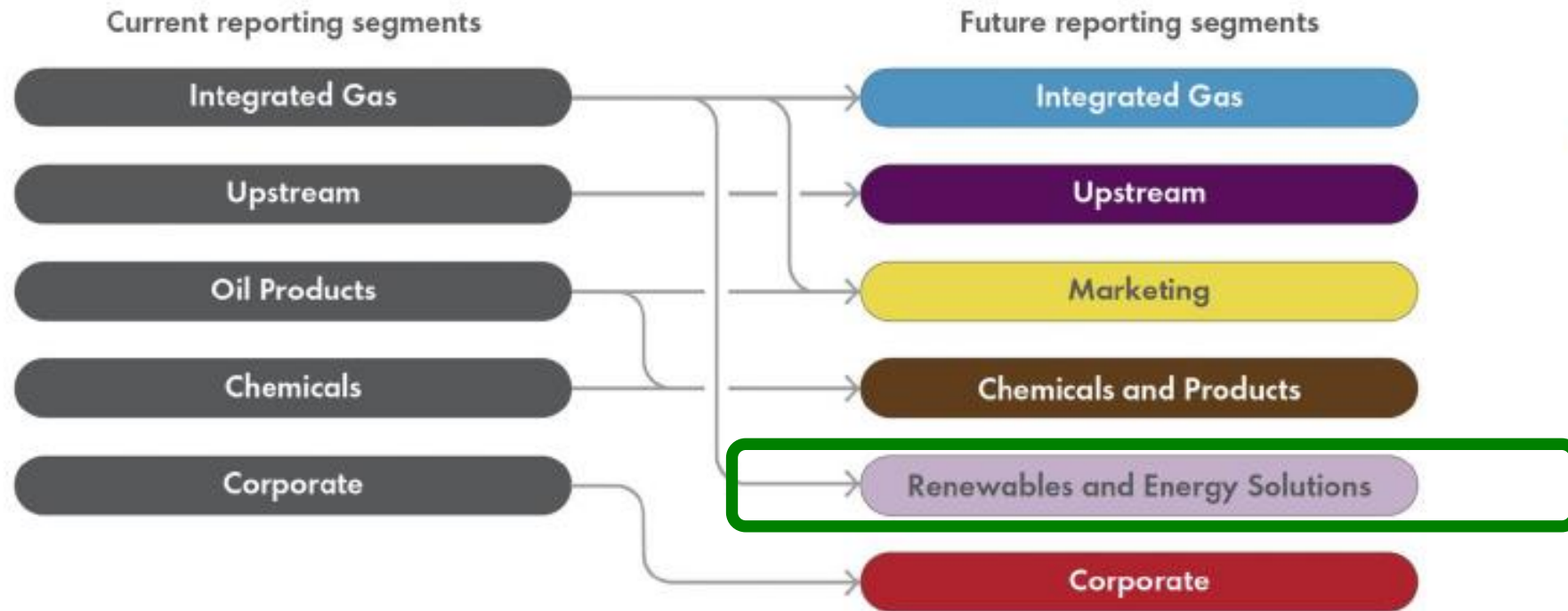
To illustrate the sensitivity.....an increase in the discount rate by 50 basis points to 7.1% (post-tax real terms rate) would reduce the recoverable amount by US\$180 million with all other valuation inputs remain constant.

**Provided
sensitivities to
a Paris-aligned
scenario**

REFLECT CHANGE TO SEGMENT REPORTING

Segmental reporting

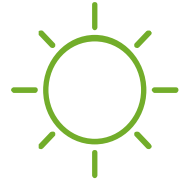
Our reporting segments are Integrated Gas, Upstream, Oil Products, Chemicals and Corporate. Integrated Gas, Upstream, Oil Products and Chemicals include their respective elements of our Projects & Technology organisation. The Corporate segment comprises our holdings and treasury organisation, self-insurance activities, and headquarters and central functions. See Note 5 to the "Consolidated Financial Statements" on pages 245-248. With effect from 2022, our reporting segments will change to Integrated Gas, Upstream, Marketing, Chemicals and Products, Renewables and Energy Solutions and Corporate, reflecting the way Shell reviews and assesses its performance.



Disclosed
new
segment
created

Shell plc, Annual Report and Accounts 2021, page 10

ISCA'S BULLETIN ON ADDRESSING CLIMATE CHANGE RISKS



Accounting considerations,
including provision for onerous
contracts, sustainability-linked
loans



Provides a comprehensive
illustrative example

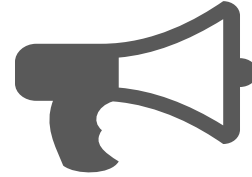
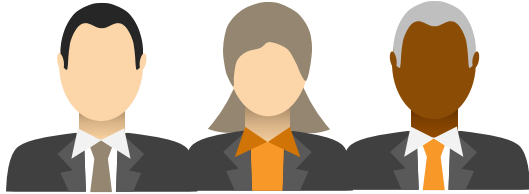


Audit considerations for ACs to engage
auditors and understand how auditors
are covering the risk areas

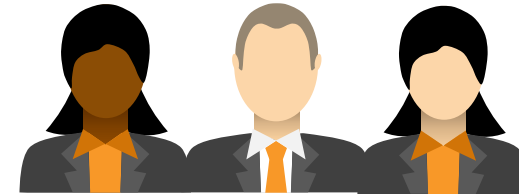
ISCA
Bulletin:



Public accountants (PAs)



Audit clients



- To disclose **inspection findings** to listed audit client (of inspected engagement) if obtained “Not Satisfactory”¹ outcome from ACRA inspection
- Failure to comply will lead to suspension, cancellation or non-renewal of PA’s license
- Target to take effect in 2Q2023

- Understand root causes of inspection findings and remediations taken
- Request auditor’s Audit Quality Indicators (AQI) data and discuss with auditor to assess commitment to audit quality

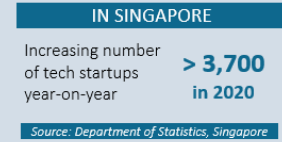
¹ If extensive number and/or significant/severe and/or repeated non-compliances with relevant professional standards/ pronouncements have been identified.

Public Consultations

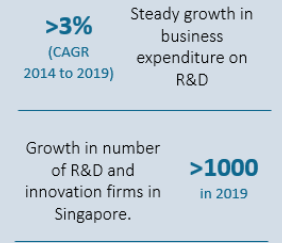
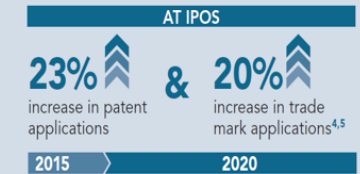
Intangible assets (IA) and IP are increasingly driving enterprise and economic growth



Asia is at the forefront of innovation and R&D, accounting for **>45% of global gross domestic expenditure** on R&D in 2017.



Source: UNESCO Institute for Statistics



To access:



SIPS 2030: At a Glance



- Aims to build a **credible and trusted intangible assets valuation and reporting ecosystem**
- Supports enterprises in **managing and commercialising** their intangible assets
- No jurisdiction has developed an intangible-specific disclosure framework, let alone an **intangible-specific valuation framework**
- Launched public consultation on **Intangibles Disclosure Framework**. Open until 28 Feb 2023

INTANGIBLES DISCLOSURE FRAMEWORK

THE FOUR THEMATIC PILLARS

Purpose

To provide stakeholders with standardised information about an enterprise's intangibles, so that more informed assessments of their business and financial market prospects can be made.

Strategy

Disclose how intangibles contribute to business, strategy, and financial planning where such information is material.

Recommended Disclosures

1. Intangibles and their relationship to business activities and value creation
2. Intangibles and value creation from past-to-present
3. Intangibles and value creation from present-to-future
4. Intangibles and their role(s) in attaining a competitive advantage for the enterprise

Identification

Disclose the nature and characteristics of the intangibles that fit into the definition provided, and categorise them.

Recommended Disclosures

1. Description of the nature and characteristics of an intangible
2. Categorisation of intangibles

Measurement

Disclose the performance metrics and drivers used to assess an enterprise's intangibles where such information is material.

Recommended Disclosures







1. Quantitative or valuation relevant metrics/drivers to assess the performance of intangibles
2. (Optional) Monetary value of intangibles

Management

Disclose how an enterprise identifies, assesses, and manages the risks and opportunities of its intangibles.

Recommended Disclosures

1. Processes for identifying and assessing intangibles-related risks and opportunities
2. Processes for managing intangibles-related risks and opportunities
3. Integration between identifying, assessing, and managing intangibles-related risks and an enterprise's overall risk management strategy

Country	Regulator	Applicability	Climate	Human Rights	Human Capital	Assurance Required	Assurance Subject Matter
	Securities and Exchange Commission	Listed issuers	√		√	Limited , then Reasonable	GHG emissions Scopes 1 & 2
	European Commission, European Financial Reporting Advisory Group	Non-micro listed issuers + "Large" non-listed companies¹	√	√	√	Limited , then Reasonable	Entire report (covering ESG)
	Financial Conduct Authority; Financial Reporting Council	Listed issuers + Large non-listed companies²	√	√	√		
	Chinese Securities Regulatory Commission	Listed issuers	√				
	Bank of Japan, Japan Financial Service Agency	Listed issuers	√				
	External Reporting Board, Financial Markets Authority	Large listed issuers + Large non-listed financial institutions³	√			Limited	GHG emissions Scopes 1, 2 & 3

¹ EU defined non-listed large companies as companies that exceed at least two of three size criteria: (1) Balance sheet total: EUR 20m (2) Net revenue: EUR 40m; (3) Average number of employees during the FY: 250.

² UK defined large non-listed companies as companies that (1) > 500 employees and (2) Turnover > £500m.

³ NZ defined large listed companies as those with market capitalisation > NZ\$60M and large non-listed FIs as those with total assets > NZ\$1B.

SUSTAINABILITY REPORTING ADVISORY COMMITTEE

1. **Set up** in June 2022 by ACRA and SGX RegCo, with support from MOF for two purposes:
 - a) Develop roadmap for implementing SR by SG-incorporated companies; and
 - b) Provide inputs on the suitability of international standards.

2. **Working towards issuing public consultation in mid-2023**, covering areas such as:
 - a) Scope of companies required to report;
 - b) Mandatory reporting framework;
 - c) Assurance requirements (scope, framework, who can perform); and
 - d) Legal responsibilities and offences.

More will be shared during AC pitstop on 16 Aug 2023.



Thank You!