2019 Mini-Guide for Audit Committees

Hot topics that ACs and Directors need to know

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ACRA
ACCOUNTING AND CORPORATE REGULATORY AUTHORITY

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Corporate Governance Revisions

The revised Code of Corporate Governance was published on 6 August 2018. It will apply to annual reports covering financial years commencing from 1 January 2019.

At the same time, SGX amended the Listing Rules, most of which come into effect on 1 January 2019.

The changes relating to ACs are highlighted below.

Listing Rules

- Mandatory compliance
- Non-compliance is a breach and will be subject to investigation by SGX

Code of Corporate Governance

- Principles are mandatory
- Describe in annual report the corporate governance practices with reference to provisions
- Disclose in annual report any variation from provisions, with reasons and how practices are consistent with intent of the relevant principle

Listing Rule Amendments

Establishment of AC	Establish AC with written terms of reference clearly setting out authority and duties of the AC.	MR 210(5)(e)/ CR 406(3)(e)
Establishment of internal audit function	Establish and maintain an independent, effective and adequately resourced internal audit function.	MR 719(3)/ CR 719(3)
Comment on internal audit function in annual report	AC must comment on whether internal audit function is independent, effective and adequately resourced.	MR 1207 (10C)/ CR 1204(10C)
Comment on adequacy and effectiveness of internal controls & risk management systems	AC must provide a statement on whether it concurs with board's comment on the adequacy and effectiveness of internal controls (including financial, operational, compliance and information technology controls) and risk management systems. Where material weaknesses are identified by board and AC, they must be disclosed together with steps taken to address them.	MR 610(5), MR 1207(10)/ CR 407(4)(b), CR 1204(10)

Code of Corporate Governance Amendments

Review of CEO/CFO assurance	Review assurance from CEO and CFO on financial records and financial statements.	Provision 10.1(c)
Review of external and internal audit functions	Review adequacy, effectiveness, independence, scope and results of external audit and company's internal audit function.	Provision 10.1(e)
Composition of AC	AC membership should not have a former partner or director of the company's existing auditing firm or auditing corporation: (a) within a period of two years commencing on the date of their ceasing to be a partner of the auditing firm or director of the auditing corporation and in any case (b) for as long as they have any financial interest in the auditing firm or auditing corporation.	Provision 10.3
Reporting line of internal audit function	The primary line of reporting of the internal audit function is to the AC which decides on the appointment, termination and remuneration of the head of the internal audit function.	Provision 10.4

Tan Boon Gin, CEO of SGX RegCo, shares highlights of the nature and significance of the corporate governance changes.

Accounting Standards

SFRS(I) 9 & SFRS(I) 15 — Extensive New Disclosures on Financial Instruments and Revenue

FY 2018 financial statements will include extensive new disclosures required by two major accounting standards: Financial Instruments (SFRS(I) 9) and Revenue (SFRS(I) 15). Below are several new disclosure requirements that ACs should pay specific attention to. These should be discussed with management and external auditors to ensure that they fairly represent actual circumstances.

New Requirements	Impact	What AC Should Focus On
Disclose amount and expected timing of revenue from unsatisfied performance obligations.	• Result in disclosure of outstanding order book. • New process and control may be required.	• Understand and be comfortable with the processes and controls in place to ensure accuracy of disclosures made. • Reflect on disclosures presented against information elsewhere (e.g. announcement, MD&A) for consistency and reasonableness.
Removal of "cost" as a measurement basis for unquoted investments (when fair value cannot be reliably measured).	• Result in increased use of estimates which can be judgemental.	• Understand and be comfortable with the basis of fair value measurement including key assumptions and inputs used. Focus on potential areas of management biasness. • Consider whether experts should be used in the determination of fair valuation. If they are used, evaluate their competence and independence.
New Expected Credit Loss ("ECL") model introduced with two approaches: General 3-stage approach • ECL determined on a 12-month basis and continuous monitoring and assessment for significant increase in credit risk is required. • ECL determined on a lifetime basis when there is significant increase in credit risk. Simplified approach • Applicable for certain financial assets, such as trade receivables with no significant financing component. Use of a provision matrix to determine lifetime ECL.	• ECL model effectively results in impairment losses being recorded earlier. • Higher degree of judgement involved in grouping of financial assets of similar credit profile and adjusting historical loss to current conditions.	For general 3-stage approach: • Understand management's basis in determining significant increase in credit risk and review the appropriateness of disclosure of such basis in the financial statements. For the simplified approach: • Understand basis of provision matrix developed by management, paying attention to grouping of financial assets with similar loss patterns. • Historical loss rates should be adjusted for current conditions of the debtors and the general economic conditions. Review disclosures and assess if they are reflective of the characteristics of financial assets subject to credit risks.

SFRS(I) 16 — Higher Gearing With More Leases Recognised

Effective 1 January 2019, the new accounting standard for leases, SFRS(I) 16, means that more leases will likely be recognised in the books:

- Lease liability would be recorded on the balance sheet for almost every lease with a corresponding "right-of-use" asset.
- Higher amount of debt will affect certain financial ratios commonly used in debt covenants, such as gearing ratio and current ratio.
- The amount of lease liability is affected by the amount of lease payments and lease term.

ACs should carefully consider the following:

- Whether an arrangement contains a lease of assets and/or services. Judgement is required. Only a lease of asset should be included in lease liability.
- Variable payments may be considered as "fixed" and form part of minimum lease payments of the lease liability.
- Option period may be considered as fixed lease term and would increase lease liability.

The AC and External Auditor

In overseeing high quality audits and financial reporting, it is crucial for the AC to engage with the external auditor (EA). Below are considerations for the AC in its engagement with the EA.

Evaluation of EA	How Should the AC Use AQIs
One of the AC's responsibility is to evaluate the performance of the EA. In assessing audit quality, the AC should make use of ACRA's Audit Quality Indicators (AQIs) Disclosure Framework[1].	• Request the EA to provide the relevant values of the AQIs as set out in the Framework. • In evaluating the AQIs, consider the resource commitment, technical competence, level of independence, objectivity and professional scepticism of the audit team, how the audit process was managed, and the quality of the EA's communication with the AC. • Set expectations for upcoming audits.
Communications with EA	**What the AC Should Ask the EA**
The AC should engage the EA so as to: • Be kept informed about significant audit and financial reporting matters; • Seek EA's feedback on the quality of financial reports prepared by the company; and • Ensure that the EA conducts a quality audit.	• Potential issues that may impact the company's financial reporting and audit. • Feedback on the quality and competence of the finance team, and how the company's financial reporting may be improved. • Whether the EA had been subject to audit inspections by the firm/ regulator. If yes, what are the findings including the issues raised and remedial actions taken.
AC Commentary[2]	**What Should be in the AC Commentary**
The AC should provide its own commentary on significant financial reporting and audit issues, particularly on Key Audit Matters (KAMs) reported by the EA.	• Independent perspectives on the KAMs raised by the EA (e.g. severity of the KAMs, impact on the company). • Explanation on how the company had addressed the KAMs. • Perspectives on other significant financial reporting and audit issues not raised as KAMs by the EAs.

[1] Please refer to https://www.acra.gov.sg/AQI_framework.aspx for further guidance on the framework.
[2] A 2018 PwC report on the 2nd year adoption of the EAR in Singapore found 60% of annual reports with AC commentaries, up from 40% in the 1st year of adoption. Click https://www.pwc.com/sg/en/publications/enhanced-auditor-report.html for the full report.

Filing of Financial Statements in XBRL Format

ACRA has issued a public consultation on the proposed changes to the filing of financial statements (FS) in machine readable (XBRL) format. The impact on listed companies is as follows:

Measures	Current	Proposed
Listed companies	Must file the complete set of FS in XBRL format (with ~400 data elements).	Must file the complete set of FS in XBRL format (with ~210 data elements).
Subsidiaries of listed companies	Must file the complete set of FS in XBRL format (with ~400 data elements), regardless the size of the company's operations.	The extent of XBRL filing would vary based on the size of the company's operations. • Smaller companies (i.e. revenue and total assets ≤ $500k individually) will file Simplified XBRL format (with ~100 data elements) and attach the complete set of FS in PDF. • The other companies will file the complete set of FS in XBRL format (with ~210 data elements).

ACRA has proposed to streamline the data elements to collect only highly relevant and useful data. Thus, listed companies may look forward to filing close to 50% fewer data elements. In addition, ACRA has proposed to vary the extent of XBRL filing based on the size of the company's operations (as indicated above).

To make evaluation simple, ACRA has also proposed to assess the quantitative criteria on revenue and total assets based on the FS required to be filed. For example, in the case where an intermediate parent company is exempted by accounting standards, by Companies Act or, in very rare occasions, by ACRA from preparing consolidated FS, both criteria will be assessed based on the non-consolidated FS to be filed.

Directors are encouraged to provide feedback to the public consultation, which will be closed on 31 January 2019.

Sustainability Reporting

Investors are increasingly seeking responsible investments. Such investors care about how environmental, social and governance (ESG) factors are managed and use ESG information as an indication of the quality of management. Research also demonstrates increasing evidence of linkages between sustainability performance and corporate performance.

In line with this trend, SGX introduced sustainability reporting in June 2016. For financial years ending on or after 31 December 2017, listed issuers are required to prepare an annual sustainability report, which must describe the issuer's sustainability practices with reference to the following five primary components on a "comply or explain" basis:

- identification of material ESG factors;
- policies, practices and performance in relation to each material ESG factor;
- targets for the forthcoming year in relation to each material ESG factor;
- selection of sustainability reporting framework(s) to guide its reporting and disclosure; and
- a statement by the board that it has considered sustainability issues as part of its strategic formulation, determined the material ESG factors and overseen the management and monitoring of the material ESG factors.

It is imperative that the board, which is responsible for formulating the strategy of the company, is engaged in the process and ensures that management executes, amongst others, sustainability objectives effectively.

All listed issuers must issue the sustainability report no later than 5 months after the end of its financial year. However, to provide sufficient time for preparation, a listed issuer in its first year of reporting may report within 12 months of the end of its financial year.

A listed issuer may choose to include its sustainability report in its annual report as the inclusion of sustainability risks and opportunities with the businesses' other risks and strategy in the same document presents advantages to the user. Alternatively, a listed issuer may include a summary in its annual report and subsequently issue a full standalone sustainability report within the prescribed timeframe.

The AC's Role In Cybersecurity

The rise of cybersecurity incidents, such as the recent data breach which affected 1.5 million SingHealth patients, serves to remind organisations that cyberattacks are now a matter of "When, not If".

The impact of cybersecurity incidents is widespread and not limited to non-compliance with laws and regulations. Loss of data integrity arising from unauthorised access to financial reporting applications would impact management's ability to produce true and fair financial statements.

Given the frequency, magnitude and cost of cybersecurity incidents, the AC should:

- understand how management has defined cybersecurity for the business and the impact of such risks over the financial reporting process;
- oversee controls and procedures developed by management to identify and address cybersecurity risks;
- ensure that cybersecurity controls are regularly reviewed and up-to-date;
- understand the procedures in place to provide timely updates to investors about material cybersecurity issues; and
- understand how the EA and IA have factored in cybersecurity risks in their risk assessment procedures.

In particular, the AC can use the IA function to:

- review any cyber risk management framework in place and provide a gap analysis in the organisation's cybersecurity process;
- review the sufficiency of existing controls against any ongoing digitalisation initiatives or technological changes; and
- conduct penetration and other simulated attacks to test the resilience of the organisation.

Tan Shong Ye, IT Risk Leader of PwC Singapore, shares highlights on the AC's role in cybersecurity.

AC Resources 2019

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. 2-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
- Articles by AC Chapter members. These columns include:
  - "Counting Beans" in quarterly SID Directors Bulletin
  - "Boardroom Matters" in The Business Times

Soh Gim Teik, Chairman of SID AC Chapter, shares on the background and functioning of the Chapter.

2019 PD Calendar for AC Members

16 January	ACRA-SGX-SID Audit Committee Seminar
20 February	DFF: Director Financial Reporting Fundamentals
7 March	AC Pit-Stop: Elevating the AC role with Analytics and AC Commentary
26 March	LED5: Audit Committee Essentials
25 April	AC Pit-Stop: Auditing and Disrupting Technologies Impact on Internal Audit
3 May	BDC3: Audit Committee Chairmen's Conversation (by invitation only)
22 May	DFF: Director Financial Reporting Fundamentals
23 May	AC Pit-Stop: Business Valuation Best Practices, Issues & Challenges
29 May	LED5: Audit Committee Essentials
29 - 31 May	SDP3: Finance for Directors (SID-SMU Directorship Programme)
26 June	AC Pit-Stop: Understanding the New Insolvency Regime
24 July	LED5: Audit Committee Essentials
31 July – 2 August	SDP3: Finance for Directors (SID-SMU Directorship Programme)
29 August	DFF: Director Financial Reporting Fundamentals
17 September	AC Pit-Stop: Managing Tax Disputes and Controversy
16 October	LED5: Audit Committee Essentials

Audit Committee Seminar 2019

The annual must-attend event for all AC members jointly organised by ACRA, SGX and SID.

Date:	Wednesday, 16 January 2019
Time:	9.00 am to 11.15 am
Venue:	Marina Mandarin Hotel
Theme:	The Audit Committee in the New Normal
Welcome:	Ong Khiaw Hong, ACRA
Speakers:	Bong Yap Kim, ACRA June Sim, SGX RegCo Soh Gim Teik, SID
Panellists:	Ramlee Bin Buang, SID Kevin Kwok, Accounting Standards Council and SGX Lim How Teck, Raffles Education and Sustainable Development Program Ooi Chee Kar, AusGroup and Tokio Marine Life Insurance Shariq Barmaky, Deloitte Southeast Asia
Closing:	Tan Boon Gin, SGX RegCo

The next seminar will be in January 2020.