

2021 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 Areas of Review Focus on FY2020 Financial Statements

Accounting Standards

AC Resources 2021



SGX RegCo's Guidance and Highlights on Disclosure Practices

SGX RegCo's Public Consultations

Title	Issues
1. Enhancements to enforcement powers	<ul style="list-style-type: none"> • SGX RegCo intends to widen its enforcement powers to deal with relevant persons by imposing public sanctions, except in cases where the circumstances warrant a fine. • SGX RegCo will refer the conduct of professionals which does not fulfill expected industry standards to the relevant industry bodies. • SGX RegCo intends to require issuers which are the subject of an investigation by a special auditor, independent reviewer, or a regulatory or enforcement agency, to seek its approval for the appointment or re-appointment of a director, chief executive officer and chief financial officer (or its equivalent rank).
2. Enhancements to the whistleblowing framework	<p>SGX RegCo intends to require issuers to disclose in their annual report a statement whether and how they have complied with the following best practices on whistleblowing:</p> <ul style="list-style-type: none"> • Establish and maintain a whistleblowing policy; • Designate an independent function to investigate whistleblowing reports made in good faith; • Ensure that the identity of the whistleblower is kept confidential; • Disclose its commitment to ensure protection of the whistleblower against detrimental or unfair treatment; and • The Audit Committee is responsible for oversight and monitoring of whistleblowing.

SGX RegCo's Guidance on Disclosure Practices

Title	Issues
1. Financial reports and business updates amid times of business uncertainty such as COVID-19	<ul style="list-style-type: none"> • Issuers are expected to increase scrutiny of high-risk areas such as cash balances and accounts receivables, and areas that require significant estimates like impairment, cash flow forecasts and debt servicing abilities. • Boards should question Management on the appropriateness of property valuations, including consideration of any significant valuation uncertainties, assumptions or limitations. • Issuers should assess the appropriateness of going concern assumptions. The Board's plans to address uncertainties as to going concern should be disclosed. • Boards should increase efforts to ensure that internal controls remain adequate and efficient, with more frequent checks to ensure no management override of controls. • Boards must confirm the reliability of the issuer's interim financial statements, pursuant to Listing Rule 705(5).
2. Issuers, directors or executive officers under investigation by authorities (including a regulatory authority, an exchange, a professional body or a government agency)	<p>Issuers should disclose the following when they are notified of investigations involving the issuer, its directors or executive officers, where applicable:</p> <ul style="list-style-type: none"> • The nature of the offence; • The names and positions of the directors or executive officers being investigated; • Whether the said directors or executive officers have been interviewed; • Whether an arrest has been made; • Whether any director or executive officer has been formally charged; • Whether any conditions or restrictions have been imposed, including the surrender of passports; and • The Nominating Committee's independent assessment on the suitability of the director or executive officer to remain on the board and key management respectively. <p>These disclosures are also relevant where the director is seeking re-appointment or appointment in another issuer.</p>



What are ACRA's areas of review focus for FY2020 financial statements (FS)?

In the current climate, Audit Committees (ACs) are expected to deal with more uncertainties, particularly when making estimates or assessing cash flow/financial positions. ACs are also encouraged to disclose beyond the requirements in the accounting standards, to inform the shareholders on areas significantly impacted by COVID-19 pandemic.

AC's judgements or estimates in the areas impacted by COVID-19 pandemic, such as:

- Impact on revenue recognition policies and estimates due to changes in trade terms or modifications to customer contracts
- Accounting for loan refinancing, new trade financing facilities and other complex instruments
- Presentation of 'exceptional' or 'one-off' item on the face of income statement

AC's assessment of the Group's going concern, taking into consideration:

- Any liquidity crunch due to adverse business environment e.g. slow collection of debts, denial of usual credit term by suppliers
- Any difficulty in securing re-financing from banks or sourcing for alternative financing
- Any breach of loan covenant that may trigger borrowings to become immediately payable
- Any other event or condition that may cast significant doubt on the Group's ability to continue as a going concern

AC's examination of impairment tests and assumptions made, paying close attention to:

- Any cash generating unit (CGU) with operating losses or poor business outlook due to changing consumption patterns
- Any change in the way CGUs are categorised or in the way goodwill is allocated to the respective CGUs
- How the latest industry outlook and business model are reflected in the cash flow forecasts used in the impairment test
- How scenarios with varying outcomes are addressed in the cash flow forecasts and disclosed in the FS
- How discount rate used in impairment test is adjusted to reflect each CGU's risk profile and the general economic uncertainty

AC's review of the valuation of investment properties and financial instruments, in particular:

- Competency of professional valuer and the scope of valuation (including review of the assumptions made by management)
- Any caveat or qualifying statement included in the valuation report that may impact auditors' opinion
- Any significant decline in the asset's value after year-end that should be promptly disclosed in the FS

Internal controls and audit considerations

AC's evaluation of the internal control environment

- How have remote working and other changes in business operations impacted the effectiveness of internal controls?
- Has management entered into unusual major transactions to keep the Group afloat or deliver target results/dividends?

AC's discussion with the statutory auditor

- Any change to the Group's significant audit risks? If yes, what are the auditors' plan to address the change(s)?
- Will auditors be relying on (and testing) management controls?
- What is the auditors' assessment of the company's cybersecurity risk?
- What is the key audit matter(s) to be added or changed in the auditors' report?
- How well is the auditor performing vis-à-vis ACRA's **audit quality indicators (AQIs)** to deliver quality audits?

Tips for equipping ACs for the tasks ahead

- Have 2 or more AC members with deep knowledge and experience in accounting and auditing.
- Invest time to review FS before AC meeting and allocate enough time in AC meeting to deliberate on key accounting and auditing matters.
- Build CFO and finance team's expertise in accounting and valuation requirements.
- Engage experts to augment the team's expertise and knowledge for complex material items.
- Conduct "sanity check" on companies' financial results against strategies and operations.
- Put on the shareholders' hat and ensure disclosures are explained simply and completely.



Audit adjustment study and survey to evaluate finance function effectiveness

ACRA is commissioning a second audit adjustment study in 2021 to examine the nature and extent of audit adjustments made to the financial statements of Singapore's listed companies.

As part of the study, ACRA, together with researchers from the Singapore Management University (SMU), Nanyang Technological University (NTU) and Singapore Institute of Technology (SIT) will be conducting **a survey on AC chairs' and chief financial controllers' assessment of the effectiveness of their companies' finance functions**. The questions in the survey can also serve as a self-assessment tool for companies to evaluate their finance functions and identify potential areas of improvement.

In the first half of 2021, ACRA will enlist the help of participating audit firms to reach out to the AC chairs and chief financial controllers of listed companies to complete the survey. ACRA looks forward to companies' support and participation in the survey.

1. The first study, titled "**Audit Adjustments Matter: Upholding Financial Reporting Quality**" was conducted and published in 2014. That study had provided insights on nature and extent of audit adjustments made to the financial statements of Singapore's listed companies, and reaffirmed the value of audit and financial preparers' responsibilities in the financial reporting value chain.

Title	Issues									
<p>Accounting Standards</p> <p>Interest Rate Benchmark Reform</p> <p>The replacement of benchmark interest rates such as LIBOR and other interbank offered rates (“IBORs”), which is typically a forward-looking rate, using new reference rates has become a priority for global regulators. The new reference rates are backward looking overnight borrowing rates which are typically based on actual observed transactions and do not have a “term” element.</p> <p>These changes are expected to result in the end of most other global IBORs by end of 2021. In Singapore, the Monetary Authority of Singapore has in place a steering committee to oversee the transition of the Singapore Offered Rate and the phased discontinuation of the Singapore Interbank Offered Rate.</p> <p>The reform has thus caused substantial global changes to lending, bond and derivative contracts in major currencies and the mechanism of calculating interest will change for a significant proportion of contracts. Therefore, entities will need to prepare for this change which includes the need to:</p> <ul style="list-style-type: none"> • Identify IBOR references in contracts which includes loans, leases, revenue contracts (for example late payment penalty rates and financing arrangements), and intercompany funding; • Evaluate interest rate and liquidity risk as loans may need to be renegotiated, hedging and investment strategies may need to be modified to reduce exposures on IBOR-based assets; • Evaluate whether the proposed IBOR changes qualify for the reliefs provided in Phase 1 and Phase 2 given the potential differences between the existing IBORs and the new reference rates; and • Assess the readiness of current systems and processes to adapt to these changes. <p>From an accounting and reporting perspective, the IASB has issued the following amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 given the pervasive nature of IBOR-based contracts:</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #eee;"> <th style="width: 25%;">IASB amendments</th> <th style="width: 25%;">Phase 1 (issued in September 2019)</th> <th style="width: 25%;">Phase 2 (issued in August 2020)</th> </tr> </thead> <tbody> <tr> <td>Objective of the amendment</td> <td>Provided hedge accounting relief in the periods before the reform</td> <td>Addressed issues arising from the implementation of the reforms, including the replacement of one benchmark with an alternative one.</td> </tr> <tr> <td>Effective Date (Earlier application is permitted)</td> <td>Periods beginning on or after 1 January 2020</td> <td>Periods beginning on or after 1 January 2021</td> </tr> </tbody> </table> <p>The key amendments to IFRS 9 in Phase 2 include:</p> <ul style="list-style-type: none"> • Updates to the effective interest rate for changes in the basis for determining contractual cash flows to avoid an immediate gain or loss impact; • Provision of relief to allow hedge relationships not to be discontinued solely because of the interest rate reforms but no relief being given to recognition of ineffectiveness; and • Requirement for additional disclosures on the effects of the reform. <p>As the effects of the IBOR change could vary for each entity, entities are encouraged to perform a self assessment ahead of the reform, and communicate with key stakeholders on the impact of IBORs to their businesses and transition plans undertaken.</p>	IASB amendments	Phase 1 (issued in September 2019)	Phase 2 (issued in August 2020)	Objective of the amendment	Provided hedge accounting relief in the periods before the reform	Addressed issues arising from the implementation of the reforms, including the replacement of one benchmark with an alternative one.	Effective Date (Earlier application is permitted)	Periods beginning on or after 1 January 2020	Periods beginning on or after 1 January 2021	<p>Audit Committee considerations: COVID-19 and beyond 10 sine qua nons</p> <p>Strategy</p> <ol style="list-style-type: none"> 1. Thinking longer-term considerations, have we noted any significant shift in our core markets or business models as a result of the pandemic? 2. Did our scenario planning consider multiple trajectories for recovery (e.g. V Curve, U Curve, L Curve) since the situation is still evolving and continues to remain fluid? 3. Given the need for accelerating digital transformations to support long term remote working, have we quantified the resource requirements to address the gaps in IT infrastructure, workforce planning and digital upskilling? <p>Liquidity</p> <ol style="list-style-type: none"> 4. Given the unpredictable economic environment, are the cash flow projections assisting us to capture the potential upside and downside outcomes in a disciplined way and supporting decision-making now and continue to do so when normalcy returns? 5. Has our strategic cost cutting measure identified and prioritised between the good and bad costs (e.g. Digital transformation, R&D, Upskilling (Good), Facilities, General Capex (Bad))? <p>Diversity</p> <ol style="list-style-type: none"> 6. Did our future supply chain at least consider diversity of vendors, vendors’ countries of origin, expected and worst case scenarios, necessity for additional storage space at short notice and alternate delivery routes? <p>Compliance</p> <ol style="list-style-type: none"> 7. Have we assessed our exposure for unfulfilled contractual obligations (e.g. construction contracts, performance bonds, licenses or leases, loan facilities, hire purchase agreements, provision of goods and services etc.) , if any, and ensured that we remain protected by the provisions of COVID-19 (Temporary Measures) Act 2020? 8. Did we consider the impact of current pandemic in the following areas relating to financial reporting: <ul style="list-style-type: none"> - Revenue recognition? - Non financial assets? - Non financial obligations? - Financial instruments? - Disclosures? <p>Economic crime</p> <ol style="list-style-type: none"> 9. Remote working prospects give rise to additional opportunities to infiltrate our networks and systems, how confident are we that our IT infrastructure is geared to address the additional level of pressure/ stress to the system? 10. In the current situation controls in sensitive areas such as approvals, pre transactional reviews and release of payments may have been relaxed, how confident are we that the increased opportunity has not resulted in asset misappropriation, accounting manipulation of payroll frauds?
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SID AC Chapter

Established in 2017, the AC Chapter seeks to build capacity and improve the effectiveness of ACs. Its resources and professional development programme 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** from a wide variety of sources are available at www.sid.org.sg/ACPublications.



2021 Professional Development Calendar for AC Members

12 January	ACRA-SGX-SID Audit Committee Seminar
18 February	AC Pit-Stop: Valuation – Addressing Challenges in Uncertain Economic Times
25 - 26 February	Director Financial Reporting Fundamentals
8 – 10 March	SDP3: Finance for Directors (SID-SMU Directorship Programme)
11 March	LED 5: Audit Committee Essentials
15 April	AC Pit-Stop: The Insolvency and Restructuring Regime in Singapore – Changes and Consolidation
30 June	AC Pit-Stop: Looking Beyond the Pandemic - Important Role of the AC
1 July	Director Financial Reporting Fundamentals
21 July	LED 5: Audit Committee Essentials
2 – 4 August	SDP3: Finance for Directors (SID-SMU Directorship Programme)
19 August	AC Pit-Stop: An Insider Guide to Cryptocurrency and Blockchain
31 August	SGD6: Financial Management and Accountability
13 October	LED 5: Audit Committee Essentials
21 October	AC Pit-Stop: Tax Function of Tomorrow
11 November	Director Financial Reporting Fundamentals
By invitation only	BDC2: Audit Committee Chairman's Conversation

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/pd

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.

“Enterprise Resilience and Risk Management”

In an uncertain and complex environment, having a sustainable and resilient business is crucial. The COVID-19 pandemic has raised pressing questions relating to inter alia, liquidity and cash flow, supply chain and global trade, shifting customer demand, sustainable business models, talent and the workforce as well as technology transformation and information security. How enterprises respond to and manage these challenges would be imperative to business survival and success.

Speakers and panellists at the AC Seminar 2021:

Ong Khiaw Hong, ACRA

Bong Yap Kim, ACRA

Tan Boon Gin, SGX RegCo

June Sim, SGX RegCo

Ho Yew Kee, SIT

Max Loh, SID

Adrian Chan, Ascendas Funds Management (S) Limited

Yiong Yim Ming, City Developments Limited

Kathy Lai, Enterprise Singapore

The next AC Seminar will be in January 2022.