



ACRA 2018 REGULATORY UPDATE

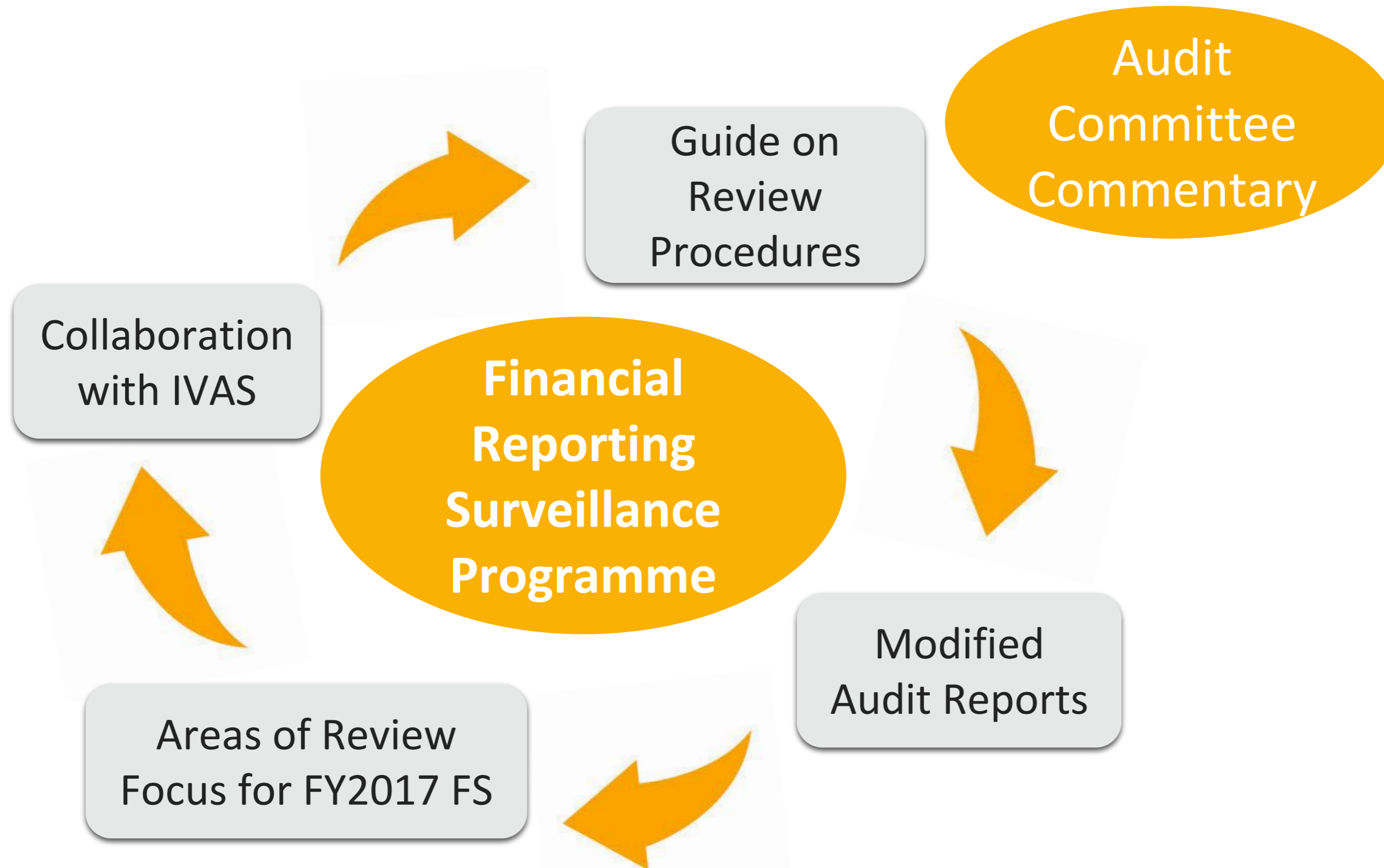
Presented by
Ms Bong Yap Kim, Divisional Director, Financial Reporting, ACRA

Organised by



AGENDA

- IMPROVING REPORTING QUALITY



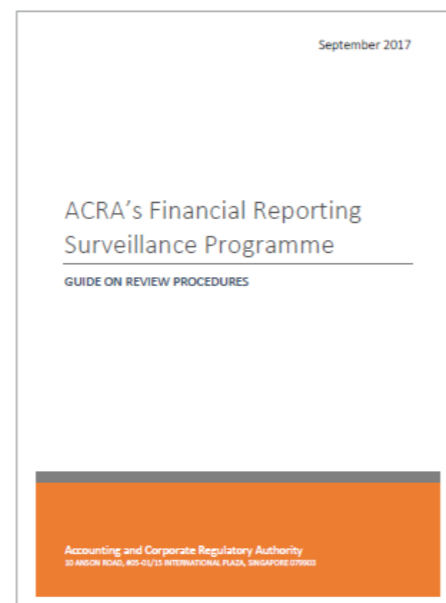
FRSP: Guide on Review Procedures

**Guide on
Review
Procedures**

Financial Reporting Surveillance Programme - Resumed with 3rd review cycle

Recap on key outcomes

- 1 Streamlined enquiry process and letter
- 2 Timely rectification of non-compliance with accounting standards
- 3 For complex cases, may seek views from other stakeholders



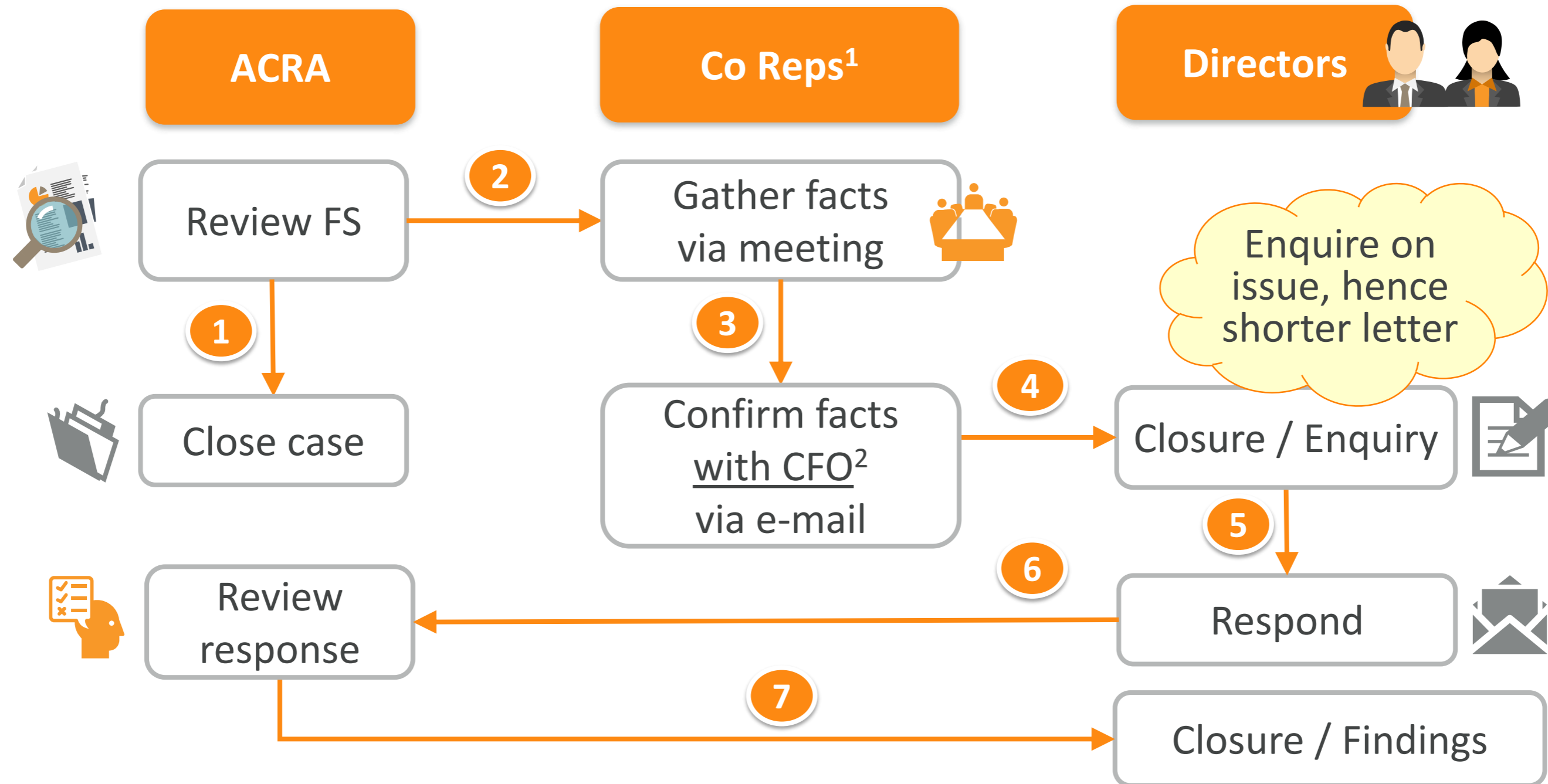
Issued Guide on Review Procedures on 2 Jan 2018.

Download at www.acra.gov.sg

**Guide on
Review
Procedures**

Financial Reporting Surveillance Programme

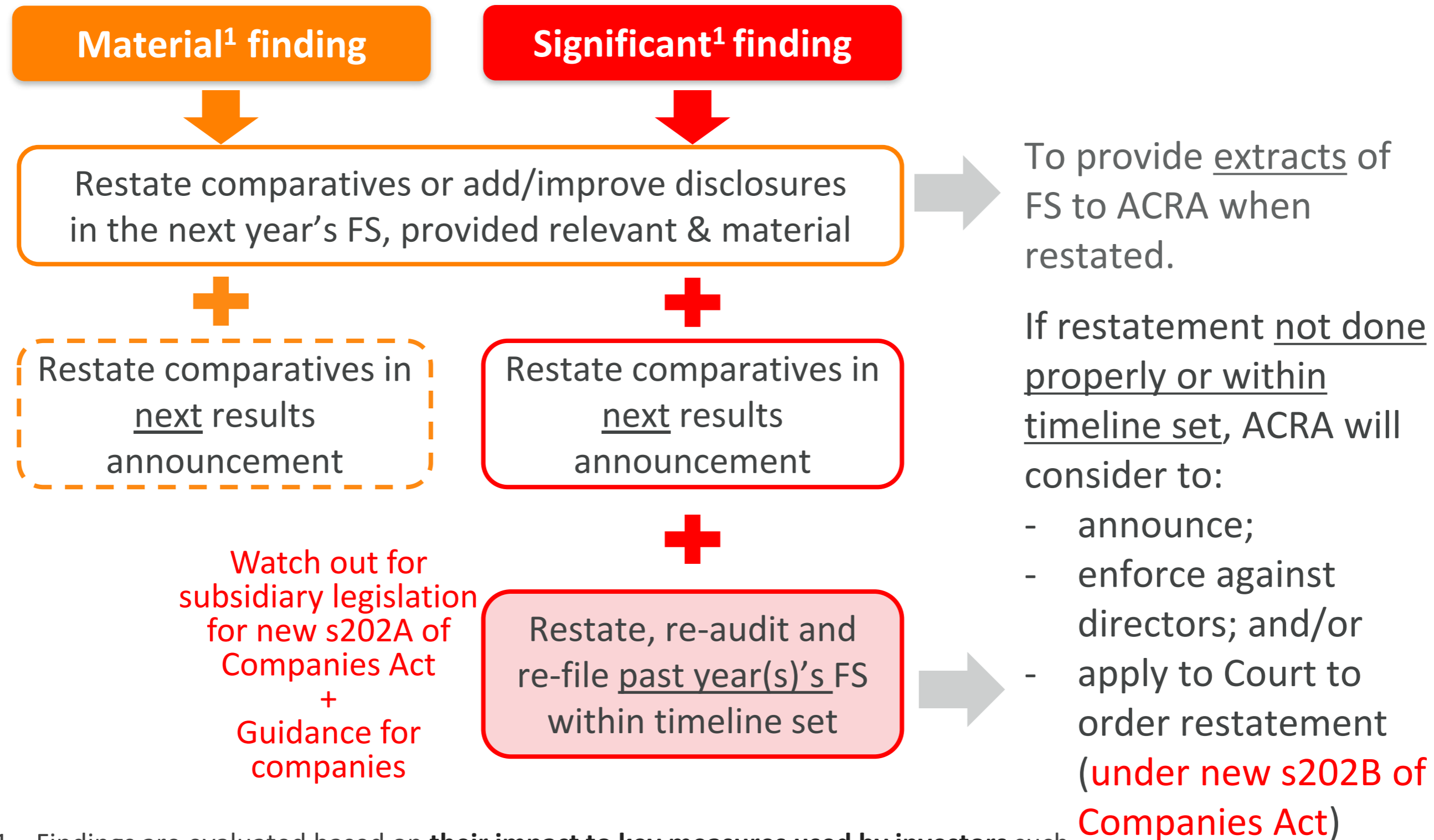
- New enquiry process



- 1 ACRA encourages directors to assign representatives who have a good knowledge of matters such as CFO, and who provide oversight such as CEO and AC chair.
- 2 Correspondences are made with CFO, copying CEO, AC chair and any other person advised by the company.

Guide on Review Procedures

Financial Reporting Surveillance Programme - Remediation actions



1 Findings are evaluated based on **their impact to key measures used by investors** such as revenue, profits and cash flows, based on both quantitative and qualitative factors.

FRSP: Modified Audit Reports

**Modified
Audit Reports****FY2016 financial statements**
- Desktop analysis on modified auditor's reports

Out of 584 Singapore-incorporated listed companies @ 31 Dec 2016:

91% Clean audit opinion

3% Emphasis of matters



6% **Modified auditor's reports**
(35 sets of FS received qualified, adverse or disclaimer audit opinions)



Investors need reliable FS
for decision making



Modified Audit Reports

Desktop analysis of 35 modified auditor's reports - Areas qualified in FY2016

Qualified area may not always be non-compliance with accounting standards

Areas qualified	No of occurrence	%
Impairment of assets	34	36%
Going concern	19	20%
Audit of opening balance	11	12%
Consolidation or equity accounting	9	9%
On-going investigation or legal cases	8	8%
Others	14	15%
Total	95	

Whose view should I take?



Investor

Impact to future results announced (unaudited)?



Investor

Where can I get reliable fin figures?



Investor



How can Audit Committee help to bridge the gap?

Modified Audit Reports

How can Audit Committee help to bridge the gap?

Example 1 – Impairment of asset

Disclosure in FS:

Management carried out a review of the recoverable amount. The key assumptions for the value-in-use calculations are those regarding the sales volume, gross profit margin and discount rates.....

Management believes that no reasonably possible changes in any of the key assumptions would cause the carrying amounts to materially exceed its recoverable amounts.

Extracts from Auditor's Report:

Management believes no impairment is necessary.....

Based on the information available to us, we are unable to obtain sufficient appropriate audit evidence to satisfy ourselves on the reasonableness of the key assumptions and inputs used in the determination of the recoverable amounts.

Whose view
should
I take?



Investor



Actions by AC:

- To form a view
- If agrees with auditors, to put through the audit adjustment
- If agrees with mgt, to disclose rationale in AC commentary

**Modified
Audit Reports**

How can Audit Committee help to bridge the gap? Example 2 – Equity accounting of joint venture

Disclosure by company in the FS:

The joint venture's financial year-end, 31 December, is **not co-terminus** with the Group's financial year-end of 31 March.

Extracts from Auditor's Report:

Had the Group equity accounted ... net financial impact would have been an increase in share of loss of joint venture and a corresponding **increase in total comprehensive loss of \$200,309, which is material to the Group's financial statements for the financial year ended 31 March 2016.**

Impact to future results announcement (unaudited)?



Actions by AC:

- Ascertain management has a plan and can resolve the issue soon?
- To describe work done in AC commentary
- In the interim, ensure impact is disclosed in future announcements

FRSP: Review focus for 2017 financial statements

**Review Focus
for FY2017 FS****ACRA's Practice Guidance No. 1 of 2018
- Areas of review focus for FY2017 FS****Effective
communication**

- Impact from new accounting standards and reporting framework



- Judgements and estimates

**Higher risk of
misstatements**

- Impairment testing
- Going concern



- One-off gain
- Consolidation/
equity accounting
- Business
acquisitions



- Cash flow
classification



Issued Practice Guidance on
2 Jan 2018.

Download at www.acra.gov.sg

**Review Focus
for FY2017 FS**

Effective communication - New accounting standards and framework



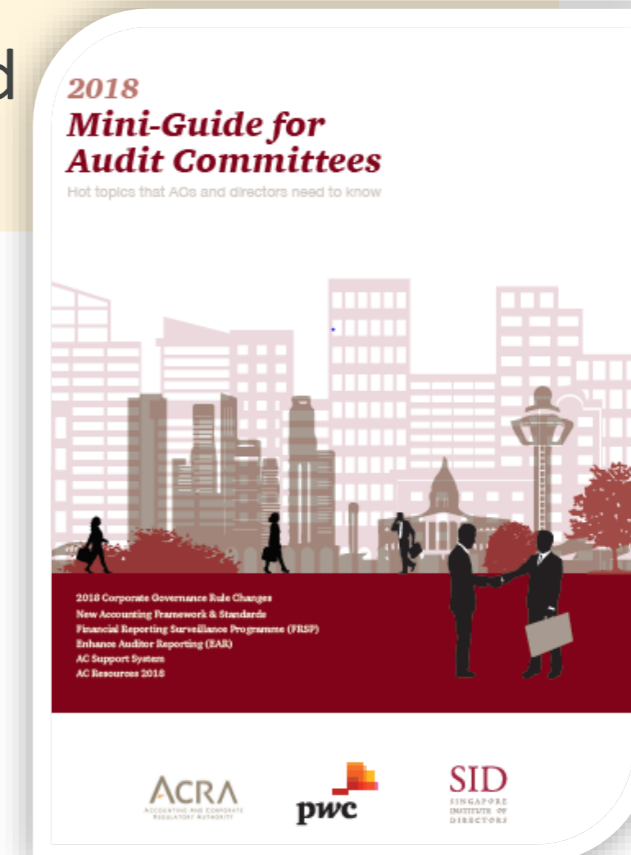
To help investors understand, more disclosures are necessary:

- **Effective 1 Jan 2018** (i.e. Revenue, Financial Instruments and SFRS(I)): Change in accounting policies + Quantifiable impact to financial position and results
- **Effective 1 Jan 2019** (i.e. Leases): Qualitative information and where practicable, quantitative information from June 2018



Other regulators

	"...We expect detailed quantitative disclosures regarding their effects..." <i>UK FRC (Oct 2017)</i>
	"...provide specific quantitative and qualitative disclosures about the application of the new standards..." <i>Europe ESMA (Oct 2017)</i>
	"...disclose the impact on future financial position and results of new requirements." <i>Australia ASIC (May 2017)</i>
	"...When a company does not know, or cannot reasonably estimate the expected financial statement impact , that fact should be disclosed. SEC staff expects a qualitative description effect ..." <i>Sylvia E. Alicea, US SEC (May 2017)</i>



**Review Focus
for FY2017 FS****Higher risk of misstatements****- Impairment charge, reversal and disclosure (1)****Impairment testing – AC should:**

- Ensure tests are done for all loss-making operating segment and intangible assets with indefinite useful lives?
- Review sensitivity analysis if headroom is small
- Review reliability of key assumptions via back testing and peer comparison

Reversal – AC should confirm:

- Due to real improvement in business
- Not related to goodwill (prohibited)
- Considered depreciation - carrying amount of asset is restated to net book value (had no impairment charge been recognised)

**Disclosures
frequently omitted:**

- Revenue growth, margin and specific costs
- Whether assumptions reflect past experience or are consistent with external sources of info



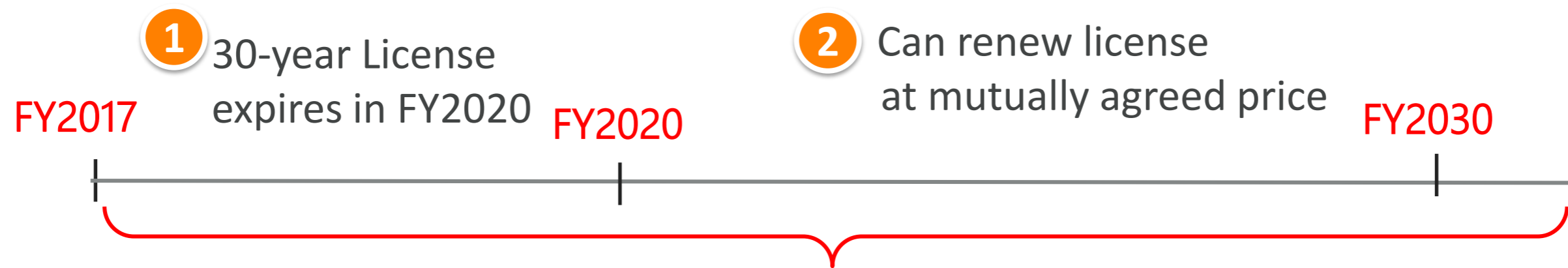
**Review Focus
for FY2017 FS**





Higher risk of misstatements - Impairment charge and its reversal (2)



Fact pattern

Company was in the business of mining crude oil. Held a mining license from Country P



- 3 Cash inflows projected to perpetuity  *Likelihood of renewing license?*
-  *To disclose sensitivity analysis?*
- If not renewed, impairment loss will be >100% of PBT**
- 4 Cash outflows excluded renewal of mining license, as company will renew for the first time (hence can't reliably estimate the amount)?
-  *Must include renewal costs*
-  *Must include replacement costs of assets integral to operations*

FRSP: Collaboration with IVAS

**Collaboration
with IVAS****Objective and Area of collaboration**

The Institute of Valuers and Appraisers, Singapore (IVAS), is established under the umbrella of the Singapore Accountancy Commission (SAC).

- It seeks to grow Singapore into a Centre of Excellence for Business Valuation.

Why collaborate?

Provide an avenue for ACRA to consult with SAC-IVAS when enquiring on:

- a. business valuation
- b. impairment testing
- c. valuation of financial instruments

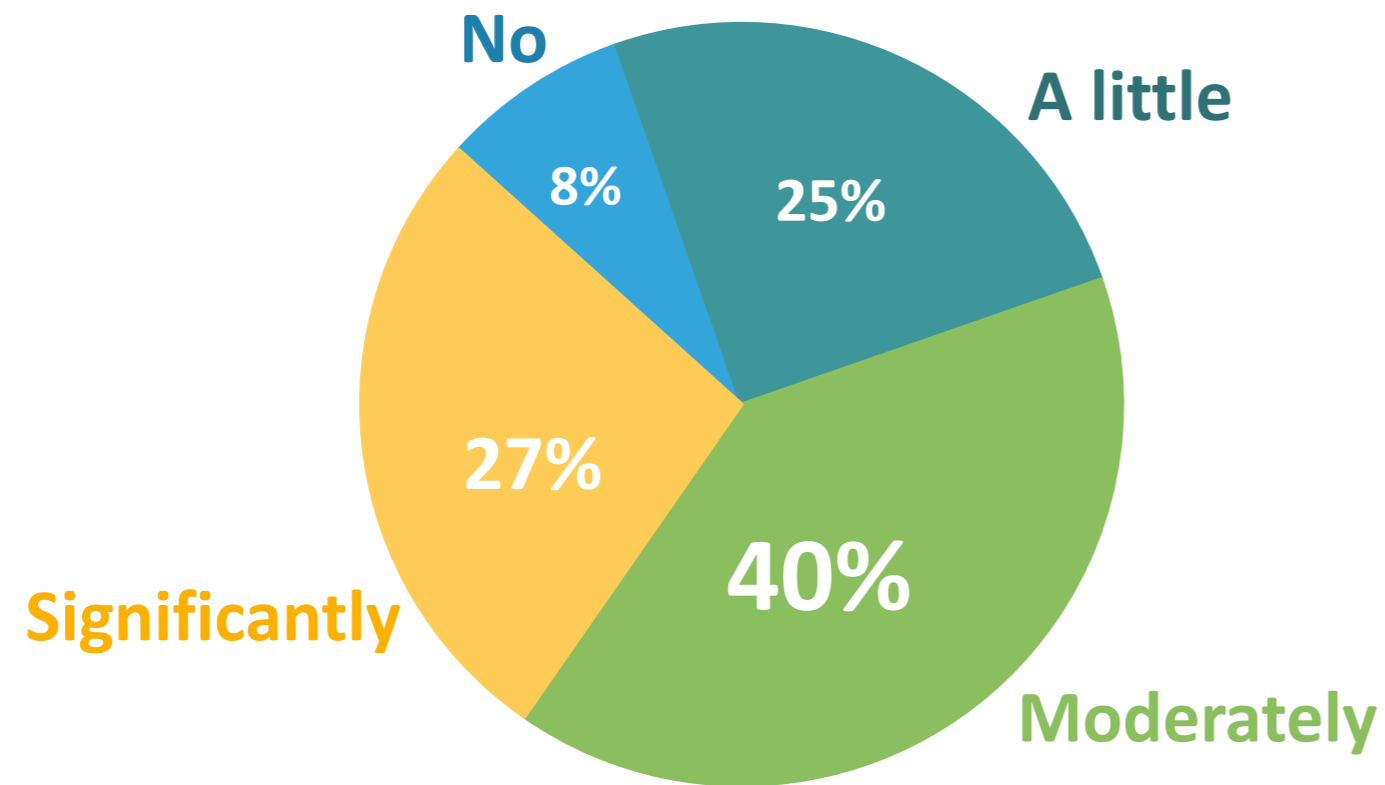
**Findings are still determined based on non-compliance(s)
with accounting standards, NOT valuation standards.**

Audit Committee Commentary

**AC
Commentary**

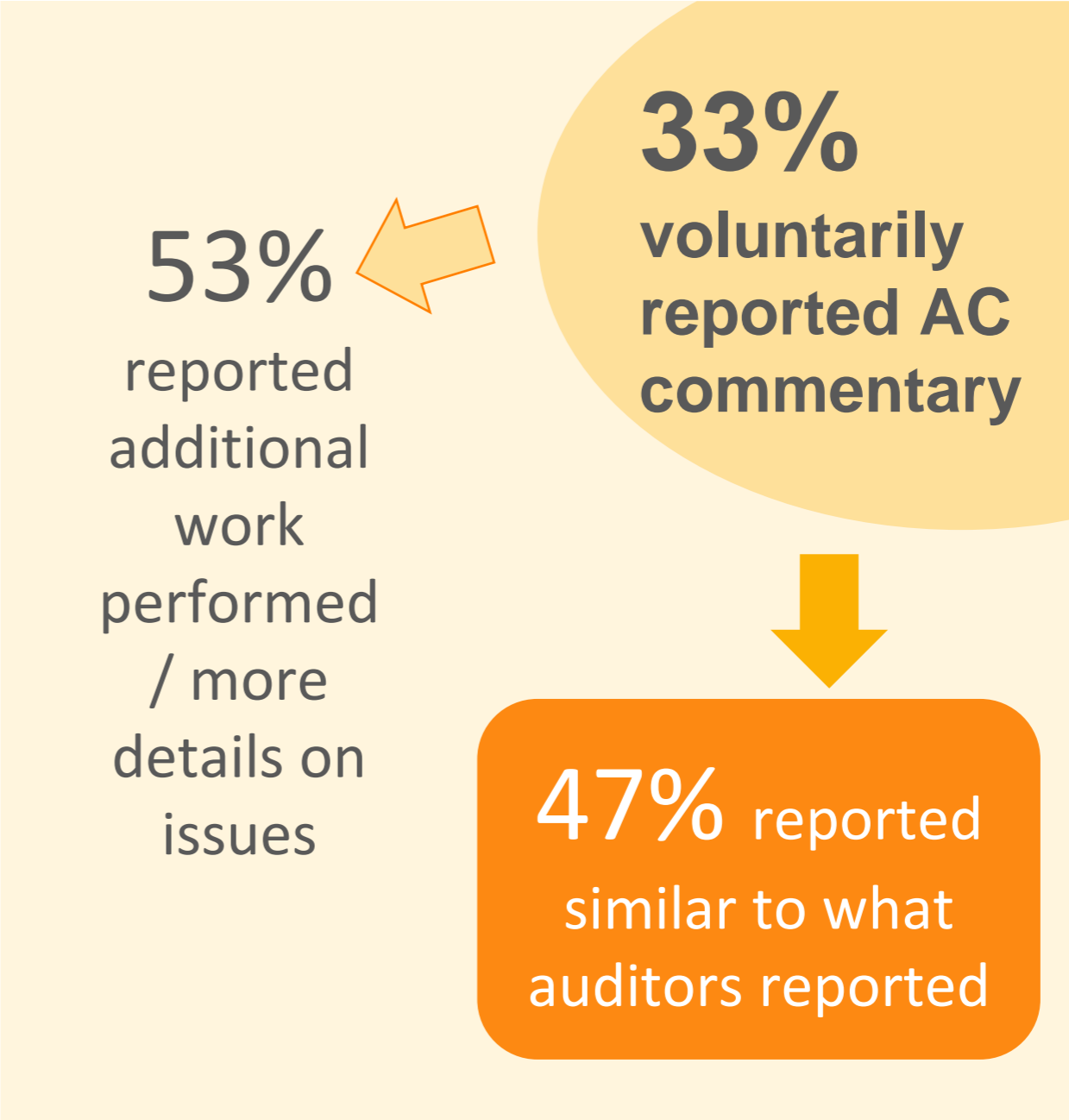
ACRA's study on AC commentary to FY2016 FS

Survey of 134 investors



67% said it is important that AC reports their views on key audit matters

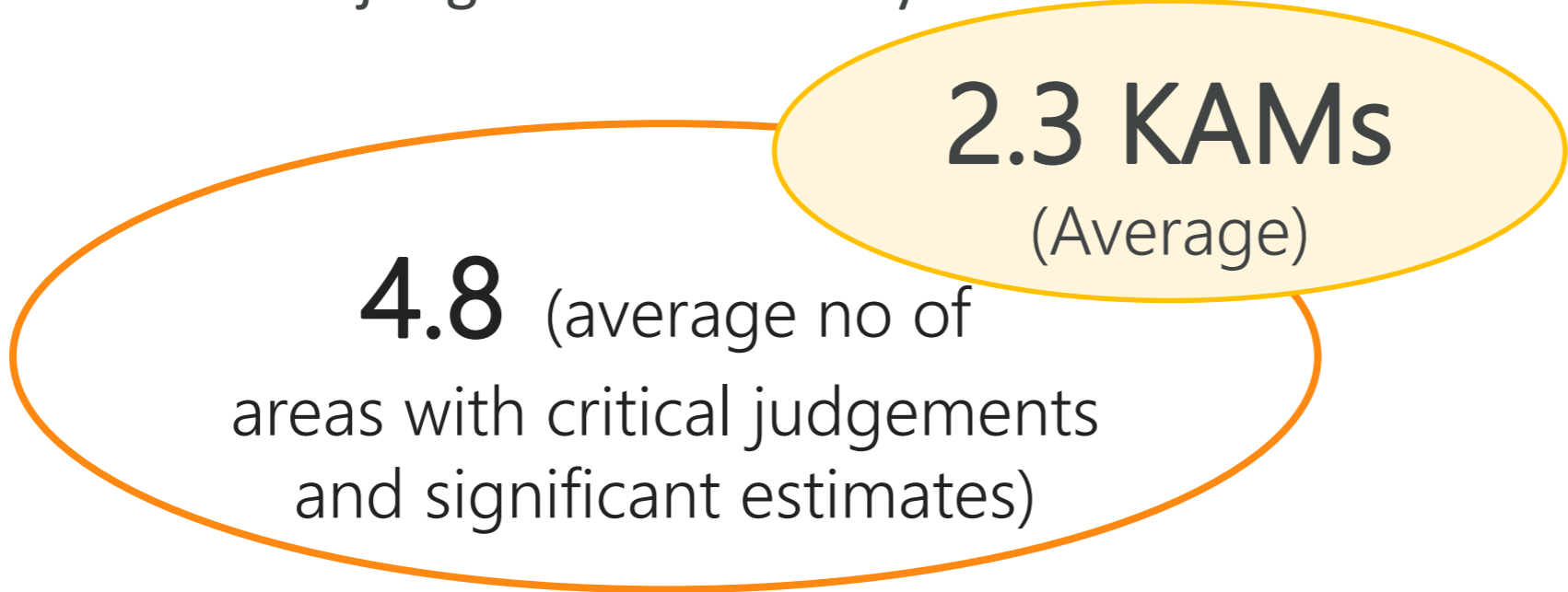
Analysis of 180 annual reports



**AC
Commentary**

Improving disclosures and use of AC commentary (1)

- 1** How AC obtained comfort over areas with critical judgements and key estimates not covered as KAMs



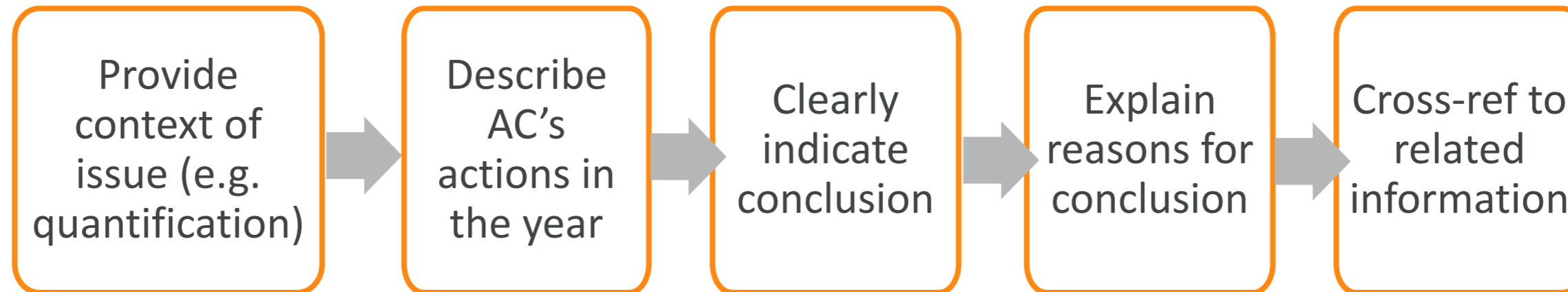
- 2** AC's work done to address shareholders' concerns on emerging issues



AC Commentary

Improving disclosures and use of AC commentary (2)

3 Consider elements of insightful AC commentaries (from UK FRC's report)



4 Highlight AC commentary and invite questions at AGMs



61%

of ACs did not experience increased investor engagement at AGMs



INVESTORS say...
KAMs helped to identify issues to raise with

Auditors

86%

Management

88%

THANK YOU

