

ACRA Regulatory Updates

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Raise effectiveness
of ACs while
complying with
Companies Act
requirements



Address
accounting,
internal control
and audit risks
from COVID-19



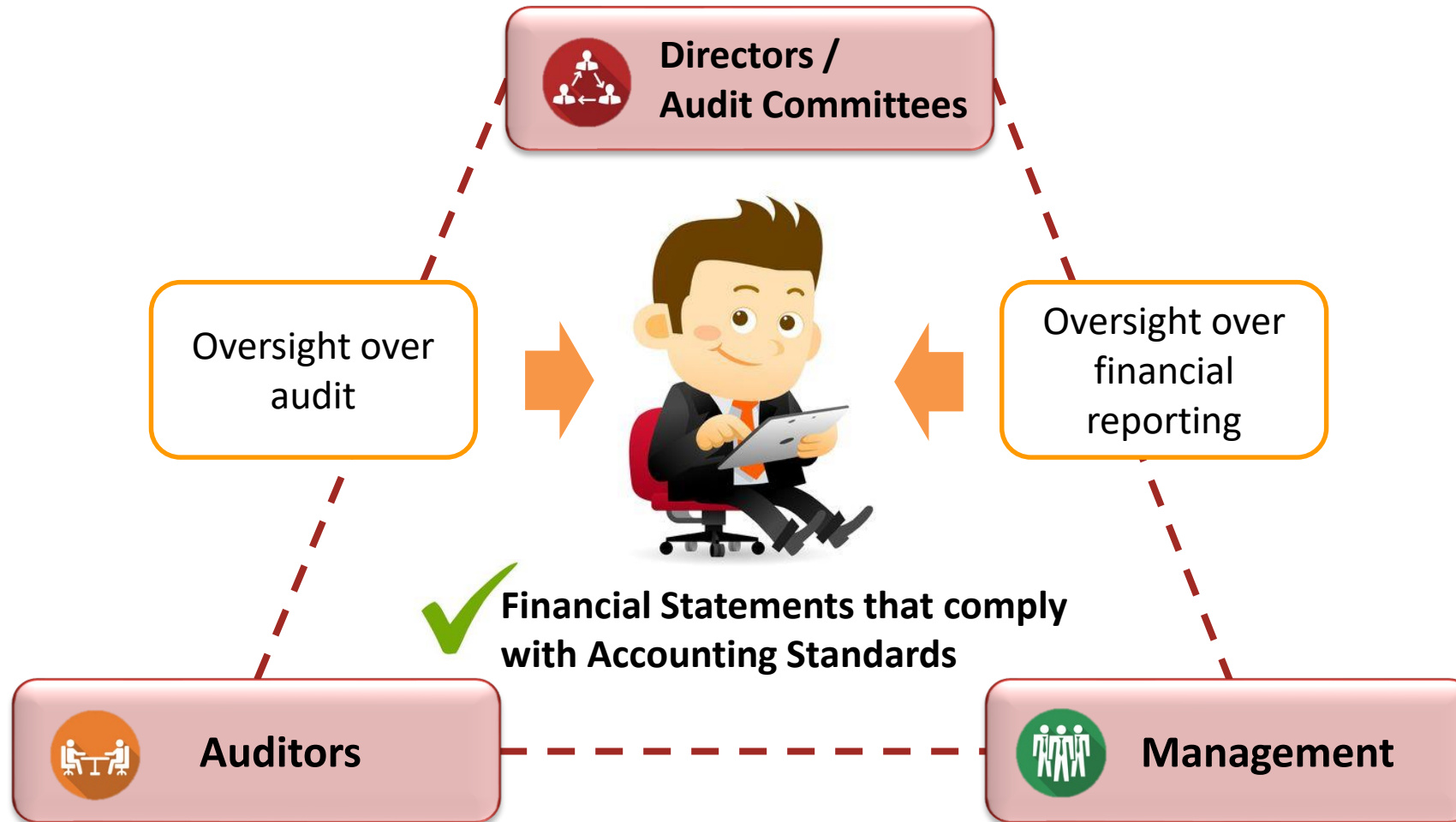
Study ways to make
finance function
more effective and
resilient





1. Raise effectiveness of ACs while complying with Companies Act requirements

Role of ACs to manage risks



How many members (including Chairman) are in your company's Audit Committee?

- A) 1**
- B) 2**
- C) 3**
- D) 4 or more**



Companies Act requires at least 3 members in Audit Committees

Audit Committee Study 2020

No. of Members in AC	List Cos
2 members	14 (2%)
≥ 3 members	636 (98%)
Total	650 (100%)

CG Code (2018)

- At least 3 directors in ACs

Audit committees

201B.—(1) Every listed company shall have an audit committee.
[5/2004]

(2) An audit committee shall be appointed by the directors from among their number (pursuant to a resolution of the board of directors) and shall be composed of **3 or more members** of whom a majority shall not be —

...

(4) If a member of an audit committee resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced below 3, **the board of directors shall, within 3 months of that event, appoint such number of new members as may be required to make up the minimum number of 3 members.**



Penalties on directors

- Fine ≤ \$10,000
- Imprisonment for a term ≤ 2 years

No Exemption



SID can help!

Can a listed company incorporated in Singapore have executive director(s) in its Audit Committee?

- A) Yes**
- B) No**
- C) It depends**



Audit Committee Study 2020

- 24 executive directors in 23 ACs
 - 17 ACs: 1 executive of 3 (33%)
 - 5 ACs: 1 executive of 4 (25%)
 - 1 AC: 2 executives of 4 (50%)

CG Code (2018)

- All directors in ACs are non-executive

Audit committees

201B.—(1) Every listed company shall have an audit committee. [5/2004]

(2) An audit committee shall be appointed by the directors from among their number (pursuant to a resolution of the board of directors) and shall be composed of 3 or more members of whom **a majority shall not be** —

(a) **executive directors of the company or any related corporation;**

...

(3) The members of an audit committee shall **elect a chairman from among their number who is not an executive director or employee of the company or any related corporation.**



Penalties on directors

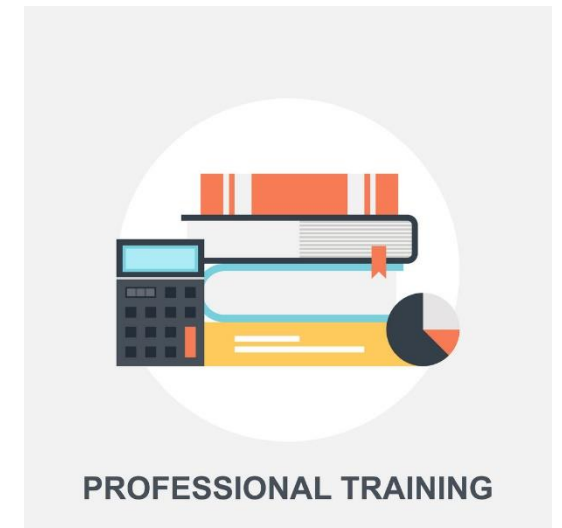
- Fine \leq \$10,000
- Imprisonment for a term \leq 2 years

No Exemption



How many member(s) (including Chairman) in your Audit Committee has accounting and auditing expertise?

- A) 0**
- B) 1**
- C) 2**
- D) 3 or more**

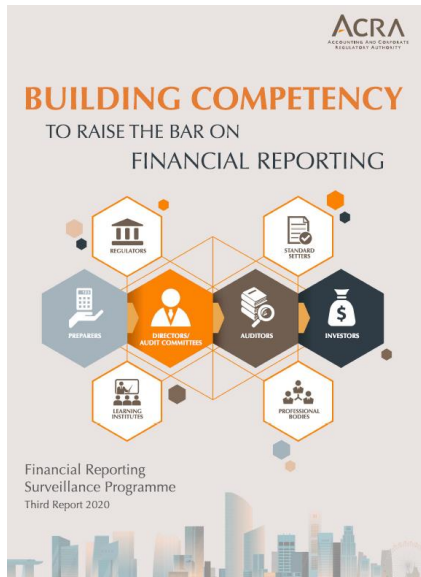




Accounting and auditing **expertise is voted the #1 key attribute of an effective AC (87% of 126 survey respondents voted for this)**

However, this did not translate into actual practices...

No. of Financially-trained Members in AC	2020 AC Study	2015 AC Study
0 (or no disclosure)	38 (6%)	30 (4%)
1	194 (30%)	202 (28%)
2 or more	418 (64%)	485 (68%)



FRSP report issued on 14 Jul 2020.

11 (or 55%) of 20 FS reviewed contained 31 material non-compliances with accounting standards (NCs)

4 listed companies re-stated, re-audited and re-filed their FS:

- consolidated pre-tax profits or losses misstated by 1 to 8 times
- consolidated net assets misstated by 15% to 68%

the ACs of 2 had no accounting trained member

Recommend 2 or more AC members with deep accounting and auditing knowledge



Tips to raise effectiveness of ACs...

Engage **experts** to
augment team's skillset

Build CFO and finance
team's accounting and
valuation knowledge

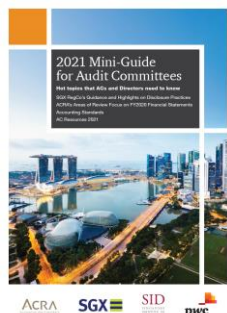
Have **2 or more AC**
members with
accounting and auditing
expertise



Invest time to review FS
before AC meeting

Conduct "sanity check"
on financial results

Ensure disclosures are
simple and succinct

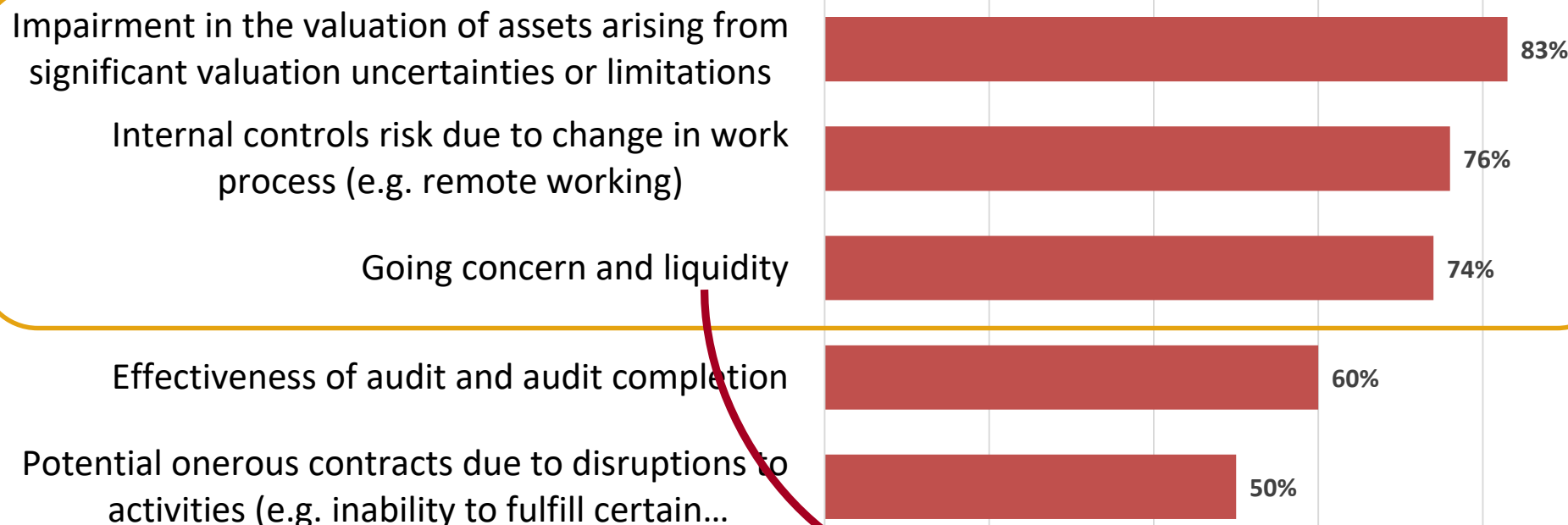


More in the
**2021 Mini-
Guide for
Audit
Committees**

2. Address accounting, internal control and audit risks from COVID-19



Audit Committee Study 2020...



Consistent with ACRA's Areas of Review Focus for FY2020 Financial Statements ¹

Ranked 3rd but most respondents (48%) ranked it as #1 concern



¹ Areas of Review Focus for FY2020 Financial Statements under ACRA's FRSP (Issued on 4 Dec 2020)

<https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/practice-guidance/financial-reporting-practice-guidance-no-2-of-2020.pdf>

Which of the following are likely not SFRS(I)-compliant presentation in the income statement?
(You may pick more than 1 answer)



A

Extracts of income statement	31 Dec 20	31 Dec 19
Actual profit before tax	<u>XX</u>	<u>XX</u>
Estimated profit before tax (had COVID-19 not occur)	<u>XX</u>	<u>XX</u>

B

Extracts of income statement	31 Dec 20	31 Dec 19
Revenue	XX	XX
Cost of sales (less COVID-19 related costs)	<u>XX</u>	<u>XX</u>
Gross profit less impact of COVID-19	<u>XX</u>	<u>XX</u>
COVID-19 related costs	XX	XX

C

Extracts of income statement	31 Dec 20		31 Dec 19	
	Pre-COVID	Post-COVID	Total	Total
Revenue	XX	XX	XX	XX
Cost of sales	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
Gross profit	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
Profit before tax	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>

Which of the following are likely not SFRS(I)-compliant presentation in the income statement?
(You may pick more than 1 answer)

A

Extracts of income statement	31 Dec 20	31 Dec 19
Actual profit before tax	<u>XX</u>	<u>XX</u>
Estimated profit before tax (had COVID-19 not occur)	<u>XX</u>	<u>XX</u>

X Hypothetical, do not show actual performance

B

Extracts of income statement	31 Dec 20	31 Dec 19
Revenue	XX	XX
Cost of sales (less COVID-19 related costs)	<u>XX</u>	<u>XX</u>
Gross profit less impact of COVID-19	<u>XX</u>	<u>XX</u>
COVID-19 related costs	XX	XX

X Hard to reliably identify and separately quantify the impact of COVID-19 pandemic → may be biased



C

Extracts of income statement	31 Dec 20		31 Dec 19	
	Pre-COVID	Post-COVID	Total	Total
Revenue	XX	XX	XX	XX
Cost of sales	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
Gross profit	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
Profit before tax	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>

X Cut off not clearly identifiable and pre-COVID-19 period not representative of future performance → may be misleading

Business “not-as-usual” will impact revenue in unusual ways

Income statement	31 Dec 20	31 Dec 19
Revenue	XX	XX
Cost of sales	<u>XX</u>	<u>XX</u>
Gross profit	<u>XX</u>	<u>XX</u>



Likely to impact \$\$ of revenue recognised:

- Changes in contract terms or usual practices
- Variable consideration (bonus, penalties) in contract
- Changes in terms of loyalty programmes

Likely to impact the amount of credit loss provision:

- Aging of receivables
- Industry and geographical regions

Balance Sheet	31 Dec 20	31 Dec 19
Cash	XX	XX
Trade receivables	XX	XX
...	<u>XX</u>	<u>XX</u>
Total assets	<u>XX</u>	<u>XX</u>

Expect impairment charge for many cos... and complexities in impairment tests

Income Statement	31 Dec 20	31 Dec 19
Revenue	XX ↓	XX
Cost of sales	XX ↓	XX
Gross profit	XX	XX

Balance Sheet	31 Dec 20	31 Dec 19
Property, plant and equipment	XX =	XX
Intangible assets	XX =	XX

- Ask management whether **any change in CGUs** + goodwill allocated to each CGU?
- Check :
 - **Growth rate:** Reflects latest biz outlook & biz model?
 - **Discount rate:** Reflects economic uncertainty?
 - **Techniques:** P/E multiples can be used if there are available comparable companies with stable prices; Expected cashflow approach if cash flows are varied



**Recommend to use professional valuers
... and use the valuation obtained
Goodwill impairment not reversible**

Valuers likely able to provide value but ... watch out for special clauses in reports

International Guidance

- **Dealing with valuation uncertainty at times of market unrest** (by the International Valuation Standards Council in Mar 2020)
- **Impact of COVID-19 on valuation** (by the Royal Institution of Chartered Surveyors in Nov 2020)

'Material valuation uncertainty'

- Arise from market disruption:
 - Lack of relevant input data
 - Choice of valuation method or model

Example

In respect of X, as at the valuation date, we continue to be faced with an unprecedented set of circumstances caused by COVID-19 and an absence of relevant/sufficient market evidence on which to base our judgments. Our valuation of X is therefore reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, in respect of these valuations, less certainty – and a higher degree of caution should be attached to our valuation that would normally be the case.



Assess impact of clauses with CFO & auditors

... need to disclose in financial statements?

... any impact to auditors' report?

If liquidity is tight and creditors are edgy ... scrutinise the cash flow forecasts (1)

9407-
5268
4139

Business and
economic factors



Management's plans



Customers' collections



Suppliers' credit



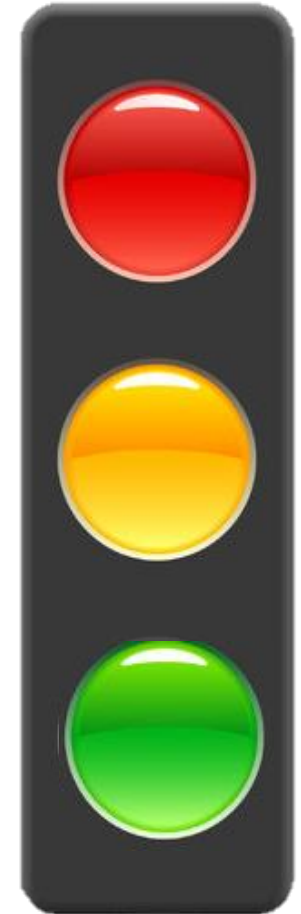
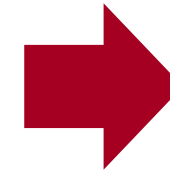
Credit facilities and
loan covenants



Extent and duration of
government support

Going concern assessment...

- Cashflow forecasts are prepared by month?
- Cashflow forecasts reflect realistic and supportable assumptions?
- Cashflow forecasts considered the worst case?



If liquidity is tight and creditors are edgy ... scrutinise the cash flow forecasts (2)

Going concern assessment...



FS prepared on liquidation basis

Material uncertainties exist OR
Critical judgment made that
there is no material uncertainty

No action required

... Impact



SGX's Listing Rules

Directors' Statement

b) at the date of this statement, there are reasonable grounds to **believe that the Company will be able to pay its debts as and when they fall due.**

Independent Auditors' Report

We draw attention to Note XX in the financial statements which indicates that the Company incurred a net loss of XX during the year... **indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern...**

Note 3 of financial statements –
Critical judgment disclosure



Conversation with management on internal controls

- Impact from remote working or changes in operations?
- Internal audits prohibited by travel restrictions?
- Pressure to meet revenue or dividend targets?

Conversation with statutory auditors on audit

- Any change to significant audit risks?
- Auditors able to rely on management controls?
- New or amended key audit matter(s)?
- Auditors' performance vis-à-vis ACRA's audit quality indicators?



Resources to help with accounting, internal controls and auditing issues



ISCA's COVID-19 FAQs

Working group by ISCA-AASC (sets auditing standards), ISCA-FRC (issues guidance on emerging accounting issues) and ACRA.



SGX's Regulator's Column



ACRA's Practice Guidance (Areas of Review Focus by Directors)

3. Study ways to make finance function more effective and resilient

Raising capacity of stakeholders in the financial reporting value chain

2019

ACRA revised Audit Quality Indicators (AQI) Disclosure Framework

2020

ACRA, SGX RegCo, ISCA and SID commissioned 4th study on the profile of Audit Committees

2021

ACRA commissioned 2nd Audit Adjustment study + 1st survey on effectiveness of finance function



Study ways to make finance function more effective and resilient



1st Audit Adjustment Study in 2014

Auditors passed **2,000+** audit adjustments (**S\$30 billion**) for 257 listed companies

#1 – Have mgt accounts quality improved since then?

#2 – Survey AC Chairs and CFOs on effectiveness of finance functions

- Questions adapted from assessment tool developed by the International Federation of Accountants (IFAC)
- Designed for Boards/ACs to identify priority areas to further develop and transform finance function to be future-fit



All responses to the study and survey will be kept strictly confidential

THANK YOU

