ACRA
ACCOUNTING AND CORPORATE REGULATORY AUTHORITY

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FINANCIAL REPORTING PRACTICE GUIDANCE NO. 1

AREAS OF REVIEW FOCUS FOR FY2024 FINANCIAL STATEMENTS

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ABOUT THE FINANCIAL REPORTING PRACTICE GUIDANCE

1.1 Under the Financial Reporting Surveillance Programme, ACRA reviews selected financial statements (FS) lodged with ACRA for compliance with the accounting standards in Singapore.

1.2 This publication outlines the areas of review focus for FY2024 FS and serves as a guide for directors, particularly those in the Audit Committees (ACs), in fulfilling their duties as directors. ACs, in reviewing the FS, are advised to be vigilant about the current and anticipated market shifts, their potential risks and opportunities, and how these factors may impact the FS under their purview.

1.3 ACs should proactively involve the external auditors and oversee the audit process to address any issues collaboratively. High-quality audits are essential for fostering confidence and trust in financial markets.

SHIFTING MACROECONOMIC ENVIRONMENT

2.1 Global growth is projected to maintain its stability, with 3.2% in 2024 and 3.3% in 2025[1], while contending with the restraining effects of past monetary policy tightening and less supportive fiscal policies. Geopolitical conflicts or severe weather events could result in supply-driven cost increases. The predominant economic trends seem to lean towards persistent inflation. Despite these risks, the global economy shows resilience, driven partly by the manufacturing sector improvements, though overall growth is slightly lower than last year's 3.3% growth[2].

2.2 Given a generally favourable global outlook, the Singapore economy is expected to achieve 2% to 3% growth in 2024[2], gradually returning to pre-pandemic growth levels. However, maintaining this favourable trajectory will be challenging due to an increasingly supply-constrained environment and rising costs. This may potentially lead to within-sector consolidation, where companies may opt to acquire businesses further up the value chain, such as those that produce raw materials to strengthen their market influence and better manage both customer pricing and supplier costs.

[1] Source: *International Monetary Fund – World Economic Outlook Update, July 2024* https://www.imf.org/en/Publications/WEO/Issues/2024/07/16/world-economic-outlook-update-july-2024
[2] Source: *Macroeconomic Review Volume XXIII Issue 2, October 2024* https://www.mas.gov.sg/publications/macroeconomic-review/2024/volume-xxiii-issue-2-oct-2024

2.3 Adding to these challenges, climate change mitigation efforts require substantial investments from both public and private sectors, ultimately leading to increased input costs. At the beginning of the year, inflation edged up, driven by the GST increase, elevated electricity and gas tariffs from carbon tax increase and rising essential services fees due to higher labour costs. However, the latter half of the year witnessed a moderation in inflation as consumer price increases fell across a wide spectrum of goods and services, particularly evident in food services, as well as various retail and household durable goods.

2.4 Potential economic headwinds, which include a global economic slowdown, geopolitical tensions and rising costs, influence inflation. These factors will increasingly shape business strategies as companies navigate the evolving economic landscape. Given the current macroeconomic uncertainties due to diverse economic dynamics, directors are advised to focus on the following accounting considerations in their review of the FS.

EXPECTED CREDIT LOSSES (ECL)

- Given the volatile inflation and interest rate environment, use **reliable and updated macroeconomic information pertinent to borrowers**, including forward-looking assumptions, liquidity challenges and financial conditions, in the assessment of ECL. **Evaluate a range of possible outcomes by applying unbiased judgement to assign probabilities to each scenario and reflect a probability-weighted amount** in determining the ECL.

- To help users understand the approach and estimate future impact, disclose **key judgements and assumptions made on significant estimates** applied in determining ECL.

IMPAIRMENT

- Consider how **changes in inflation and interest rates** might impact cash flow projections. For example, review and update **growth rate assumptions** used in projections by comparing to recent economic data to incorporate the increased uncertainties arising from the macroeconomic environment.

- Provide **adequate disclosure on key assumptions** used in determining the recoverable amount that would comply with the accounting standards requirements. Include disclosure of specific basis for impairment testing, while **ensuring overall consistency within the FS**.

- **Should there be an impairment recognised on assets held by subsidiaries in consolidated FS**, also evaluate for **potential impairment of the parent company's investment in subsidiaries**. However, be mindful that the **considerations could be different when assessing at group level compared to individual company level**. For example, a subgroup's debt may lower the investment's recoverable amount compared to the amount calculated for a cash-generating unit (CGU) at the consolidated level.

- Impairment may be **reversed** (except for goodwill impairment, which is irreversible), **only when** estimates used to determine an asset's recoverable amount have changed since the last impairment loss. This **requires judgement**. Companies should **recalculate** the asset's recoverable amount and **disclose the events and circumstances** leading to the reversal.

ACRA's Tips for ACs

- Evaluate all material events that occur after the reporting date but before the FS are authorised for issuance. Assess the impact of these material events on going concern assumptions. Engage external auditor early to ensure that management's going concern assessment is both adequate and appropriate. Additionally, determine whether any events or conditions existed as of the reporting date that will require adjustments to the FS, including estimation of ECL.
- Conduct regular model reviews of methods and assumptions to ensure that the inputs used in developing the estimates adequately reflect any changes in circumstances since the prior period.

FAIR VALUE MEASUREMENT

- Consider **current market and macroeconomic conditions** such as interest rates, inflation and yields in fair value measurement. **Detailed disclosures of valuation techniques and inputs used** is required to meet the requirements in SFRS(I) 13 *Fair Value Measurement.*

- In determining a **non-financial asset's fair value**, consider its **highest and best use**, either **through a market participant's ability to generate economic benefits by using it** or **by selling it to another market participant that would use the asset in its highest and best use** even if it differs from the company's intended use. For example, legislative amendments that will enable more optimised development of the current land.

- Provide **a narrative description of the sensitivity** of Level 3 fair value measurements to changes in unobservable inputs, if such changes significantly affect the fair value measurement to help users of FS understand the relationship of unobservable inputs to fair value.

- **For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed**, disclose the fair value hierarchy level, valuation techniques and inputs used in Level 2 and Level 3 financial instruments, including any changes from the previous reporting period and reasons for those changes.

BUSINESS ACQUISITION

- **Determining the acquisition date and assessing levels of power and participation in investees** are crucial and often **judgemental**. The outcome frequently depends on the **specific terms and conditions of the agreements**. Companies pursuing synergistic benefits or restructuring through business acquisitions should **evaluate these aspects to accurately determine whether they have joint control, significant influence or control over investees**.

- The current economic environment may propel an **increase in unique transactions structured as unconsolidated investments and joint ventures**. As such, companies should **consider their essence and underlying rationale when determining accounting, classification and disclosure**.

- For material business acquisitions, evaluate whether goodwill includes premiums for specific intangible assets that may need to be separately identified and recognised. It is advisable for companies to engage a professional valuer such as certified Chartered Valuer & Appraiser Charter Holder[3], to **identify and value these specific intangible assets separately from goodwill**. Additionally, ACs should assess the **reasonableness of the management's assumptions** in valuing intangible assets.

CLIMATE-RELATED CONSIDERATIONS

3.1 Climate-related events have triggered sustainability measures and environmental policies to be put in place. One example is the implementation of carbon tax increase, which in turn, increases electricity and gas tariff. Such measures and policies will likely continue to influence the operating environment, adding complexity to financial and sustainability reporting.

3.2 Locally, the Singapore Exchange (SGX) has introduced a phased approach to mandate climate reporting[4] for issuers. For financial year commencing between 1 January and 31 December 2024, climate reporting is mandatory for issuers in the (a) financial industry; (b) agriculture, food and forest products industry; (c) energy industry; (d) materials and buildings industry; and (e) transportation industry. For all other issuers, climate reporting will remain on a "comply or explain" basis.

CONNECTIVITY BETWEEN SUSTAINABILITY REPORTING (SR) AND FINANCIAL REPORTING (FR)

- Companies' operational and financial performance could be **influenced by climate-related risks or initiatives** such as the impact from net-zero commitments, green financing, and involvement in the voluntary carbon market. As key climate-related assumptions involve the use of judgements and estimates, **a coherent and connected reporting** between the sustainability report and FS will enable stakeholders to **understand the financial implications and their alignment** with the companies' strategies and business models.

[3] The Institute of Valuers and Appraisers, Singapore (IVAS) was set up by the Singapore Accountancy Commission in 2013 to develop Singapore into a centre of excellence for Business Valuation. IVAS launched Asia's first professional Business Valuation certification, the Chartered Valuer and Appraiser programme. IVAS also develops competency frameworks and promotes professional valuation standards. IVAS is a member of the International Valuation Standards Council (IVSC), the global standard setter for valuation.

[4] Source: *SGX Sustainability Reporting*
https://www.sgx.com/sustainable-finance/sustainability-reporting

ACCOUNTING AND DISCLOSURE OF RENEWABLE ENERGY PROJECTS AND EMISSION SCHEMES

- As companies adopt cleaner energy through **Power Purchase Agreements (PPAs)** to address climate change, **key characteristics of PPAs**, such as the terms of pricing, contracted energy volume, objectives, and duration, should be carefully evaluated to determine how PPAs should be accounted for, **with reference to the applicable accounting standards**.

- Accounting for PPAs often requires the **use of significant judgements**, which should be disclosed in the FS. For example, companies should disclose their significant judgements when determining whether PPAs are physical or virtual based on their nature, as the accounting treatment varies by arrangement type.

- Consider **provisions and disclosures** in the FS, in scenarios where local regulations on **greenhouse gas (GHG) emission create obligations** to purchase GHG emission rights that exceed the current rights held by the issuer.

IMPAIRMENT OF NON-FINANCIAL ASSETS

- Valuation of non-financial assets may be affected if companies fail to consider relevant **climate-related risks** as part of the impairment assessment. For example, climate related matters often lead to increased uncertainties in future costs and/or shift in demand for goods and services.

- **Consider climate-related risks when assessing recoverable amounts** and **disclose how climate-related events are taken into account when estimating future cash flows, useful lives of assets, discount rates or growth rates** in cash flow projections used for VIU measurements. Key assumptions underlying the VIU should be **reasonable and supportable, and reflect management's best estimate** of the range of economic conditions expected over the assets' remaining useful life. In situations where a company is in a transition stage of addressing its climate-related risks and there could be different possible outcomes, the use of probabilities might be useful to reflect the uncertainties in possible timings of cash flow. All of such information should be disclosed in the FS for users to better understand the management's judgement and estimates used in the VIU computation.

- Companies significantly impacted by climate change should pay particular attention to their **impairment evaluations and related disclosures**. Companies should consider **reassessing** whether their identification of CGUs remain appropriate in light of the **challenges and opportunities** posed by climate-related events such as those arising from reorganisation.

ACRA's Tips for ACs

- Understand and assess the potential effects of climate-related risks on FS. From financial year 2025, Singapore Exchange Regulation will mandate all issuers to report Scope 1 and Scope 2 GHG emissions[5]. Issuers must start incorporating the climate-related requirements from the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards, issued by the International Sustainability Standards Board (ISSB), into their climate-related disclosures.

  As such, companies should plan early to prepare for these new requirements, considering their connection to financial reporting. Proactively addressing these changes will better equip companies to manage the complexities of meeting the requirements and their potential impacts on FS.
- Educational materials available for further reading include the study by ACRA and the Sustainable and Green Finance Institute (SGFIN) at the National University of Singapore (NUS)[6] and the presentation by IASB at the World Standard Setters conference in London, September 2024[7].

[5] Source: *SGX General Announcement - SGX RegCo to incorporate IFRS Sustainability Disclosure Standards into Climate Reporting Rules*: https://www.sgxgroup.com/media-centre/20240923-sgx-regco-start-incorporating-ifrs-sustainability-disclosure.

[6] The full report, *Unveiling Climate-related Disclosures in Singapore: Getting ready for the ISSB Standards* is accessible from https://go.gov.sg/acra-nus-study.

[7] This educational material is originated from the IFRS Foundation and is accessible from https://www.ifrs.org/content/dam/ifrs/events-and-conferences/2024/september/wss/plenary-5-connectivity.pdf.

DEVELOPMENT OF NEW ACCOUNTING STANDARDS

The following accounting standards have been issued and will take effect as follows:

4.1 For annual reporting periods beginning on 1 January 2024:

(i) Amendments to SFRS(I) 1-1 *Classification of Liabilities as Current or Non-Current*

(ii) Amendments to SFRS(I) 1-1 *Non-current Liabilities with Covenants*

(iii) Amendments to SFRS(I) 1-7 and SFRS(I) 7 *Supplier Finance Arrangements*

(iv) Amendments to SFRS(I) 16 *Lease Liability in a Sale and Leaseback*

4.2 For annual reporting periods beginning on 1 January 2025:

(i) Amendments to SFRS(I) 1-21 *Lack of Exchangeability*

SPOTLIGHT ON SPECIFIC ACCOUNTING STANDARDS

Amendments to SFRS(I) 1-12 *International Tax Reform – Pillar Two Model Rules* Related to Base Erosion and Profit Shifting (BEPS) Pillar Two

5.1 Following the announcement in the 2024 Budget for the implementation of the Domestic Top-Up Tax and Income Inclusion Rule under Pillar Two for **in-scope businesses** (annual group revenue of 750 million euros or more in at least two of the four preceding financial years) from their financial years commencing on or after 1 January 2025, Singapore has introduced the Multinational Enterprise (Minimum Tax) Bill.

5.2 In view of the current development, companies are reminded on the disclosure requirements related to the Pillar Two, particularly those stated in the Amendments to SFRS(I) 1-12 *International Tax Reform – Pillar Two Model Rules*. While the Amendments introduce a mandatory temporary exception for treating deferred taxes related to Pillar Two income taxes, affected companies should **disclose that they have applied this exception and provide any known or reasonably estimable information, in both qualitative and quantitative terms**. If such information is not known or is not reasonably estimable, companies should include a statement to that effect and information about their progress in assessing their exposure. For jurisdiction where the Pillar Two legislation is already effective, companies must **separately disclose current tax expenses or income related to Pillar Two** to help users of FS understand the relative level of those taxes.

5.3 Given the complexities involved, affected companies should engage their advisors early to determine the potential impact of Pillar Two model rules on their FS, audit and tax filings.

Scope of SFRS(I) 17 *Insurance Contracts*

5.4 SFRS(I) 17, mandatory for annual reporting periods beginning on or after 1 January 2023, supersedes SFRS(I) 4 and establishes the accounting and disclosure requirements for insurance contracts. Additionally, it modifies the definition of an insurance contract and introduces new scope exemptions.

5.5 SFRS(I) 17 **applies to all issued contracts meeting its criteria**, not just those from insurers. Companies should **assess whether any of their contracts meet the definition of insurance contracts and fall within the scope of SFRS(I) 17**. This assessment **requires a thorough understanding of how to identify an insurance contract issued**. For example, a company that is not a manufacturer, dealer, or retailer could issue product breakdown contracts or warranties that would be considered insurance contracts as defined by SFRS(I) 17.

5.6 Conversely, **not all contracts meeting the definition within SFRS(I) 17 are necessarily accounted for under this standard**. SFRS(I) 17 includes **various scope exclusions** and, in some cases, **allows companies to choose to account for certain contracts using other standards**, i.e. SFRS(I) 9 *Financial Instruments* and SFRS(I) 15 *Revenue from Contracts with Customers.* An example is a contract that qualifies as a financial guarantee between a parent and its subsidiary. A financial guarantee contract, which typically meets the definition of an insurance contract, allows the counterparty to be reimbursed by the issuer for its loss when a specified debtor fails to make a payment that is due. If a company has explicitly stated in the past that it considered these contracts as insurance contracts and has applied insurance contract accounting, SFRS(I) 17 allows the company to choose its accounting policies between SFRS(I) 17 or SFRS(I) 9 on a contract-by-contract basis. This choice is irrevocable once made.

The Upcoming SFRS(I) 18 *Presentation and Disclosure in Financial Statements*

5.7 SFRS(I) 18, effective for annual reporting periods beginning 1 January 2027, will replace SFRS(I) 1-1 *Presentation of Financial Statements*. SFRS(I) 18 **restructures income statements** into operating, investing and financing categories and could herald a significant overhaul in FS presentation for companies. The new standard requires the **exercise of more judgement**, introduces management-defined performance measures and standardises cash flow classifications. These extensive changes could demand substantial updates to a company's financial reporting systems, processes and controls. As the new standard requires **retrospective application**, early planning, with specific timeline and actions, is vital for a smooth transition to SFRS(I) 18 and to capitalise on the enhanced transparency that the standard aims to provide.

5.8 Directors are encouraged to urge their management and finance teams **to start the preparation process earlier** and such preparation could include but not limited to:

(i) Conducting a comprehensive impact assessment of SFRS(I) 18;

(ii) Developing a detailed implementation plan well ahead of the effective date of 1 January 2027;

(iii) Preparing for additional disclosure requirements required under the new standard; and

(iv) Focusing on applying the detailed requirements to their companies' specific facts and circumstances, rather than relying solely on the illustrations provided in the standard.

QUALITY AUDITS

6.1 ACs play a crucial role in ensuring the quality and integrity of financial reporting which includes the auditing process. The recent amendments to the Accountants Act have expanded the inspection powers of ACRA, which now includes Quality Control (QC) inspections of accounting entities and specific enhancements at the individual engagement level. So ACs should evaluate the Quality Control findings at the accounting entity level and on individual engagements as these have a bearing on audit quality as outlined under the Audit Quality Indicators Disclosure Framework[8].

6.2 Public accountants who have obtained a "Not Satisfactory" inspection outcome on an audit of a public interest entity are required to disclose the audit inspection findings to those charged with governance of the public interest entity concerned. ACs of such entities could use these findings as an opportunity to assess the auditor's commitment to delivering high-quality audits as well as evaluate whether the company's own financial reporting practices may have contributed to these negative findings. If so, they should proactively explore ways to enhance the quality of financial reporting. By fulfilling these responsibilities, ACs can significantly contribute to maintaining high standards of financial reporting integrity and audit quality.

6.3 ACs, in their capacity to oversee financial reporting processes and statutory audits should be cognisant of key revisions to group audit requirements, effective for audits of financial statements for periods beginning on or after 15 December 2023.

[8] Source: *Audit Quality Indicators and Industry Average*
https://www.acra.gov.sg/accountancy/public-accountants/audit-quality-indicators-and-industry-average

6.4 These revisions arise from:

(i) Singapore Standard on Auditing 600 (Revised) Special Considerations – Audit of Group Financial Statements (Including the Work of Component Auditors); and

(ii) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) on independence provisions for group audits.

6.5 In light of the enhanced and expanded responsibilities of a group auditor, ACs, are best positioned to ensure that:

(i) the group auditor has the competency and adequate resources to perform the group audit; and

(ii) management promotes strong and clear communication between group auditors and component auditors, to facilitate access to information and people.

ACRA's Tips for ACs

- The quality of a company's financial reporting can be significantly enhanced through high-quality audits. Therefore, we strongly recommend that ACs maintain a keen awareness of ACRA's regulatory activities in the audit sector. This includes staying informed about the outcomes of QC reviews and audit inspections through publicly available reports[9]. Keeping up-to-date with these regulatory developments will enable ACs to better fulfil their oversight responsibilities and contribute to the overall enhancement of financial reporting and audit quality.

[9] Source: *Audit Regulatory Reports*
https://www.acra.gov.sg/training-and-resources/publications/reports/practice-monitoring-programme-public-reports

About Accounting and Corporate Regulatory Authority

The Accounting and Corporate Regulatory Authority (ACRA) is the regulator of business registration, financial reporting, public accountants, and corporate service providers. We are responsible for developing the accountancy sector and setting the accounting standards for companies, charities, co-operative societies, and societies in Singapore. ACRA fosters a vibrant and trusted business environment that enables innovation and growth and contributes towards making Singapore the best place for business.

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