IV Audit Quality Indicators

In October 2015, ACRA launched the Audit Quality Indicators (AQIs) Disclosure Framework, where eight AQIs were introduced as common measures by which audit quality can be assessed.

In August 2016, to enhance the use of AQIs, ACRA introduced six targets on selected AQIs which will provide ACs with a common yardstick for comparison and thereafter, facilitate meaningful audit quality conversations with the EAs.

ACRA's eight AQIs	Audit quality increases with	ACRA's targets set on selected AQIs	
Audit Hours – Involvement of senior team members	↑ Levels of involvement	Lead audit partner hours over total audit hours	At least 5% for normal risk audits At least 10% for high risk audits
		Audit partner and audit manager hours over total audit hours	At least 20%
		Concurring partner hours	At least 13 hours
Experience – Audit firm's ability to deploy experienced resources	↑ Years of experience of audit team members, particularly industry-specific experience		
Training – Audit firm's hours to equip auditors with knowledge	↑ Training hours, particularly industry-specific training		
Audit Quality Review – Audit firm's and audit partner's ability to execute quality audits	↑ Consistent favourable inspection results		
Independence – Audit firm's ability to maintain independence	Independence is a pre-requisite for audit quality		
Staff Oversight – Senior team members' capacity to supervise junior team members	↓ Staff per partner / manager ratios	Staff per partner ratio	Less than 15
		Staff per manager ratio	Less than 5
		No. of listed company audits with same year-end allocated to the audit partner	Not more than 5
Quality Control Support Function – Audit firm's resources to support the execution of quality audits	↑ Dedicated quality control support resources		
Staff Retention Rate – Firm's ability to retain knowledge and experience	↑ Retention rate	Staff retention rate	75% to 80%

How should ACs use the AQIs?

Understand

- Understand the relation of AQIs to audit quality.
- Recognise varied business structures among audit firms in Singapore.
- Consider AQIs' targets set by ACRA.

Evaluate

- Evaluate eight AQIs as a whole, not each in isolation.
- Examine historical trends/ comparisons across firms.
- Focus on efforts to improve, rather than the AQIs data alone.

Engage

- Engage auditors on audit quality conversations.
- Enquire on variances in AQIs data across firms and over periods.
- Set expectations for the upcoming audits.

V AC Resources

ACs and directors can look forward to the following resources and platforms to assist them in their work in 2017.

ACRA-SGX-SID Audit Committee Seminar 2017

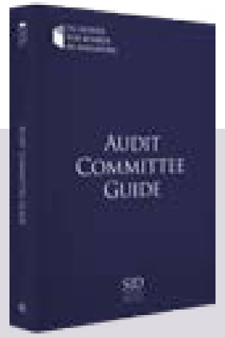
Rising Above Complexities
– What ACs Should Consider

Date: Friday, 13 January 2017
Time: 9.00 am to 11.30 am
Venue: Marina Mandarin Hotel

Speakers: Bong Yap Kim
Willie Cheng
Chng Sok Hui
Daniel Ee
Ng Siew Quan
June Sim
Danny Teoh
Tan Boon Gin
Gerard Tan
Kenneth Yap
Yeoh Oon Jin

SID AC Chapter

- SID is launching an Audit Committee Chapter in 2017. A pro-tem committee was set up in November 2016.
- The AC Chapter is intended to be a community of persons involved in or associated with ACs with the aim of building capacity of the community and enhancing the effectiveness of ACs.
- One of its objectives is to provide a platform to discuss and improve understanding of current issues, developments, trends and other matters relevant to ACs.
- It is open to AC chairs and members, other directors, relevant management personnel and other interested persons.
- Interested SID members can contact membership@sid.org.sg.

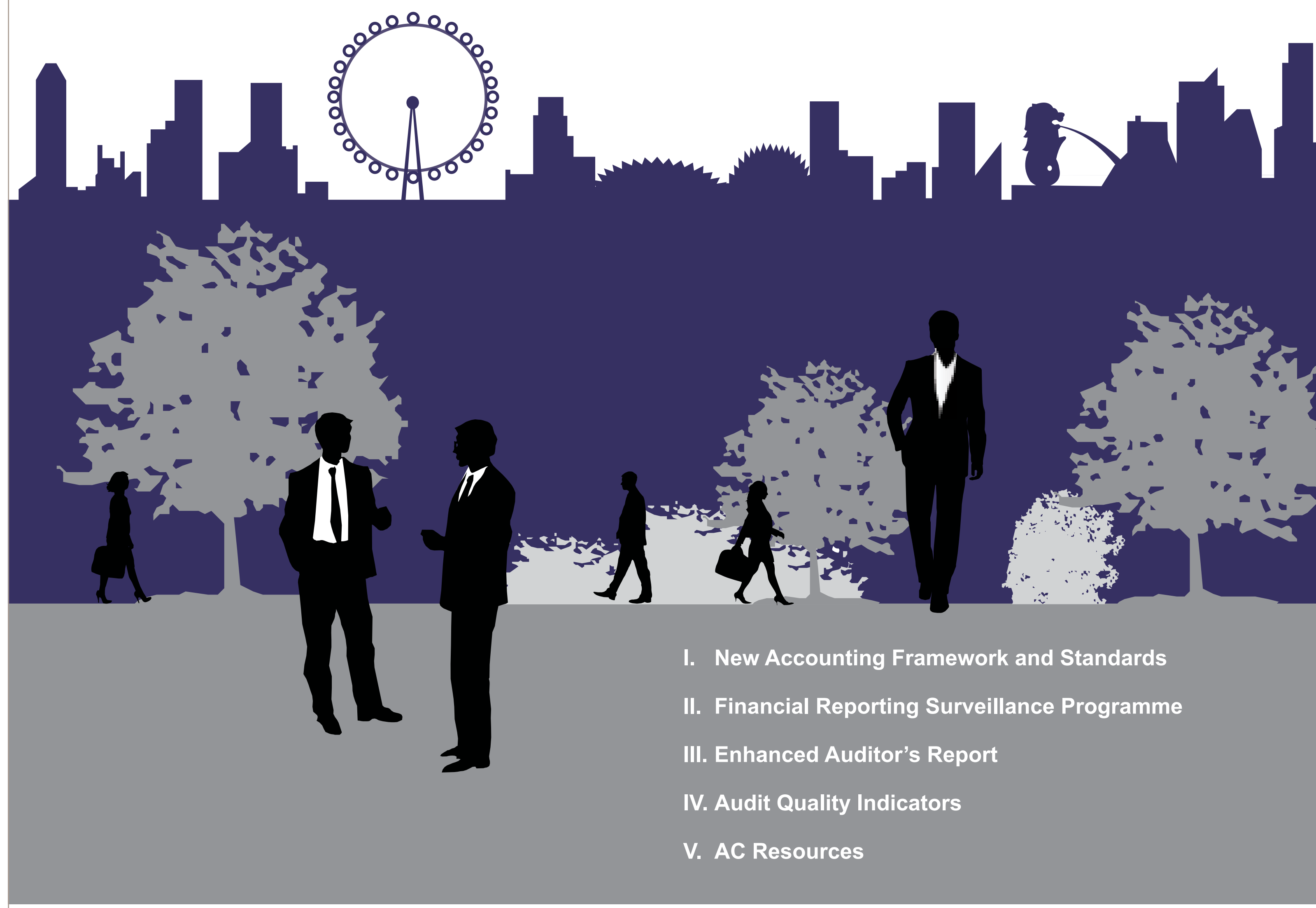


The Audit Committee Guide

- Produced by SID, with resources from PwC, and supported by ACRA, MAS and SGX.
- Part of a series of Corporate Governance Guides for Boards and Board Committees in Singapore.
- Incorporates content from the Guidebook for Audit Committees in Singapore (2008 and 2012 editions), and more.
- The book: 500+ pages, 7 sections, 25 case studies.
- Topics include: AC composition, AC agenda, control deficiencies, fraud risk management, whistleblowing, data analytics, AML/CFT, IPT/RPT, internal audit, external audit, financial reporting, and disclosure requirements.
- To be launched at the AC Seminar 2017.

2017 Mini-Guide for Audit Committees

Hot topics that ACs and directors need to know



ACRA Accounting and Corporate Regulatory Authority

pwc

SID Singapore Institute of Directors

I New Accounting Framework and Standards

From 1 January 2018, Singapore-incorporated companies listed on the Singapore Exchange will need to apply a new accounting framework identical to the International Financial Reporting Standards. There will be an overhaul of two major accounting standards at the same time: IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. IFRS 16 Leases will be effective from 1 January 2019.

Here are some of the key changes expected:

Statement of Comprehensive Income

	31 Dec 18	31 Dec 17
Revenue	XX	XX
Cost of sales	XX	XX
Gross Profit	XX	XX
Other gains and losses	XX	XX
Expenses:		
- Distribution and marketing	XX	XX
- Administrative	XX	XX
- Finance	XX	XX
Profit before tax	XX	XX
Tax	XX	XX
Profit after tax	XX	XX
Other comprehensive income:		
- Fair value gains on hedging	XX	XX
- Currency translation differences on consolidation	XX	XX
Total comprehensive income	XX	XX
	XX	XX

Balance Sheets

	31 Dec 18	31 Dec 17	1 Jan 2017
Cash	XX	XX	XX
Trade receivables	XX	XX	XX
Property, Plant and Equipment (PPE)	XX	XX	XX
….	XX	XX	XX
….	XX	XX	XX
Total Assets	XX	XX	XX
Trade payables	XX	XX	XX
Borrowings	XX	XX	XX
Derivatives	XX	XX	XX
….	XX	XX	XX
….	XX	XX	XX
Total Liabilities	XX	XX	XX
Share Capital	XX	XX	XX
Retained Earnings	XX	XX	XX
Hedging Reserves	XX	XX	XX
Foreign Currency Translation Reserves (FCTR)	XX	XX	-
Total Equity	XX	XX	XX

Revenue: The amount and timing of revenue recognition can differ significantly under the new 5-step revenue recognition model in IFRS 15.

More separable "performance obligations" are expected, for which revenue may be recognised at different timings. Revenue may also include variable consideration, such as bonus or incentives, which needs to be estimated earlier when recognising revenue.

Other gains and losses:
- Earlier and possibly higher impairment losses are expected under the expected loss model under IFRS 9, in which expected future impairment losses are recognised upfront, rather than when incurred.
- Fair value changes arising from financial instruments held at fair value through other comprehensive income ("FVOCI") will not be 'recycled' in the profit or loss upon disposal.

Depreciation expenses: Higher depreciation expenses are expected with leased assets ("right of use assets") now recognised on-balance sheet under the new IFRS 16.

Hedging: More qualifying hedging instruments and hedging items are expected with the new IFRS 9, which replaced the assessment of hedge effectiveness with one based on the principle of an 'economic relationship'.

Applying the new framework: A third opening balance sheet will need to be presented as a result of adopting IFRS 1. All transitional adjustments will be recognised on this date (1 January 2017 for December year-end companies).

PPE: PPE is expected to change due to:
- Leased assets now recognised on-balance sheet as 'right of use assets' under the new IFRS 16.
- Optional use of revalued amount when applying IFRS 1 as the "deemed cost" of PPE on 1 Jan 2017 (date of transition to the new framework for December year-end companies).

Borrowings: Borrowings are expected to increase due to corresponding lease liabilities recognised arising from the new IFRS.

FCTR: Companies have the choice to 'zerorise' its FCTR balance on 1 Jan 2017 (date of transition to the new framework for December year-end companies).

The changes brought about by the new accounting standards and implementing the new framework do not only impact the face of the primary statements. Entities will need to undertake an in-depth review of the changes and assess the impact on financial ratios, loan covenants, and performance metrics. Business processes and systems may also need to be reconfigured to support the changes.

II Financial Reporting Surveillance Programme

Under the Financial Reporting Surveillance Programme (FRSP), ACRA reviews selected financial statements of listed companies for compliance with the prescribed accounting framework in Singapore.

Revisions to the FRSP Approach

In September 2016, ACRA issued its second FRSP annual report[1]. There were fewer cases with findings in the second review cycle as compared to the first review cycle. Many listed companies also took quick action to remediate financial reporting gaps highlighted by the FRSP.

With the experience from two review cycles, ACRA undertook a review of the FRSP's policies and processes in the second half of 2016. Key changes effective from 1 April 2017 include[2]:

- **"Restatements-first" policy.** Companies will be required to remediate serious non-compliance(s) with accounting standards (NCs) by restating, re-auditing and re-filing past years' financial statements, on top of the restatements of comparatives in the current year's financial statements. For other NCs, companies will be required to remediate by restating comparatives or adding/improving disclosures in the current year's financial statements. Sanction against directors will be considered only when companies refuse to comply or in egregious cases.
- **Streamlined enquiries.** In complex cases, facts will first be obtained via meetings with company representatives and emails with CFOs. Enquiry letters will therefore seek directors' views only on potential NCs.
- **Indicate outcome early.** For serious NCs, closing meeting will be held with the directors before finalising the outcome. For other NCs, likely regulatory outcome will be indicated in enquiry letters, where practicable.
- **Hearing other views.** For selected serious NCs (e.g. judgemental issues), auditors and specialists will be formally involved.
- **Timely restatements and transparency.** An entity-specific press notice will be issued when a company does not restate or announce within the prescribed time in relation to NCs that materially affect key financial statements line items. This will keep investors informed on a timely basis.

What Directors Should Focus On

ACRA's key areas of focus when reviewing 2016 financial statements are[3]:

- **Going concern assumption.** Is this assumption appropriate? If yes but material uncertainties exist, are the disclosures adequate?
- **Value of long-life assets.** Is there any indication of impairment? If yes, is impairment test conducted? Are the assumptions used in the impairment test realistic?
- **Significant one-off gain/loss.** Does the gain/loss reflect the economic reality of arrangement, rather than just its legal form?
- **Consolidation or equity accounting.** Have contractual rights given to non-equity investors or reserved matters been considered in determining control?
- **Business acquisitions.** Have specific intangible assets been carved out from goodwill and amortised? Has a professional valuer been engaged to conduct purchase price allocation for large acquisitions with hefty premiums paid?
- **Statements of cash flows.** Are cash flows appropriately classified within operating, investing or financing categories?
- **Significant judgement and critical estimates.** Are disclosures complete and tailored to the circumstances?

1 The FRSP reports can be found at: https://www.acra.gov.sg/Publications/Reports.
2 The details can be found in FRSP Operating Procedures that will be issued in 1st quarter 2017.
3 The Practice Guidance can be found at: https://www.acra.gov.sg/Publications/Practice_Guidance/.

III Enhanced Auditor's Report

Revisions to the auditing standards will dramatically change audit reports in 2017.

The enhanced auditor's report (EAR) is effective for audits of financial statements for periods ending on or after 15 December 2016. Ten listed companies in Singapore have early adopted the EARs in 2016. In 2017, all other listed companies will have to adopt them.

The two most significant changes are in relation to "Key Audit Matters" and "Other Information".

Key Audit Matters

Key Audit Matters (KAM) are those matters which, in the view of the external auditor (EA), were of most significance in the audit of the financial statements. Typically they include:

- Areas with significant risks of material misstatement.
- Areas requiring significant judgement.
- Significant events or transactions during the financial year.

ACs need to understand the requirements of these new auditing standards. They should engage their EAs and review KAM well in advance of the reporting deadlines.

ACs also need to be cognisant of any potential inconsistencies between the description of KAM and related matters disclosed in the annual report or other publicly available company information.

Other Information

Other Information (OI), in the context of the new auditing standards, can best be described as the annual report excluding the financial statements.

The EA always had the obligation to read OI to ascertain whether there are any material inconsistencies between them and the financial statements. Going forward, the EA is additionally required to consider whether the OI is materially inconsistent with the knowledge obtained by the EA during the audit, and, whether OI is materially misstated. If so, the EA is now required to report this.

The EA is also required to report whether the OI had been received on time, meaning, prior to the signing of the audit report. If not, the EA needs to describe which parts of the annual report were not received on time and the EA's responsibility in respect of such outstanding OI.

ACs need to understand this new auditing standard and engage their EAs and management. Almost all listed companies in Singapore do not issue their annual reports at the time when the audit of the financial statements is signed off. In the past, such practice had no external consequences. Now, the EA needs to say in the EAR that the annual report was incomplete at the date of the auditor's report. Investors and other market analysts would then need to be briefed by the company on this "anomaly".

The alternative is for the company to complete the full annual report together with the financial statements at the same time. This will require investment in reporting resources by the company, and for the auditors to do their work much earlier.