AC Support System

Who can the Audit Committee look to for support?

- The AC is responsible for ensuring the integrity of financial reporting on behalf of the board. It is subjected to regulations and expectations from various stakeholders.
- However, ACs do not operate in isolation. Rather they are subject to influences from various external stakeholders throughout the course of their duties.
- While ACs need to assume accountability for financial reporting and the state of internal controls in their company, they should also be cognisant of the support that is available to them.

The diagram depicts the players in the AC Support ecosystem.

Risk Management Function
- Escalates emerging risks, and significant changes in the levels of risks to the AC
- Puts in place mechanisms to monitor key risks throughout the organisation, in conjunction with management
- Helps to instill a risk-aware culture through active promotion of better practices
- Encourages strong tone at the top

Management
- Bears primary responsibility for company performance and financial fundamentals
- Upholds standards of ethical behaviour
- Ensures information produced for both internal and external stakeholders is accurate, timely and complete
- Leads risk treatment through the formulation and implementation of policies and procedures

External Auditor
- Gives the AC assurance over financial information
- Tailors procedures to address areas the AC assesses as high risk, or requiring significant accounting judgement
- Highlights both accounting and business implications of standards developments to the AC
- Escalates weaknesses in financial controls discovered to the AC and management
- Helps the AC to monitor the integrity of financial information and competence of finance functions

Internal Auditor
- Gives the AC assurance over internal controls
- Thoroughly investigates all whistle-blowing allegations
- Assists the organisation to bring about a robust control environment
- Helps the AC to keep a pulse on the tone at the top and internal control culture at various Group entities

Professional & Advocacy Bodies
- Provides development opportunities for AC members
- Provides guidance and thought leadership on emerging topics for the AC
- Act as a platform to encourage better practices among organisations and ACs

Compliance Function
- Advises the Board and management on how best to respond to regulators' queries
- Acts as a check on management regarding business decisions with ethical implications
- Alerts the AC if the organisation is insufficiently equipped to deal with emerging legal and regulatory requirements

AC Resources 2018

SID AC Chapter

The AC Chapter was established in January 2017 to build capacity and improve the effectiveness of ACs. Its activities include:

- **AC Pit-Stops**. 2-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.** These articles from a wide variety of sources are available to SID members in the AC Chapter sub-portal at www.sid.org.sg/ACPublications. Articles are categorised by:
  1. Audit Committee
  2. Risk & Compliance
  3. Financial Reporting & Disclosure
  4. Auditors, Assurance & Audit Quality
  5. Ethics & Culture
  6. Other AC Resource Links
  7. Other CG Related Topics & Articles of Interest to ACs
- **Articles by AC Chapter members.** These columns include:
  - "Counting Beans" in quarterly *SID Directors Bulletin*
  - "Boardroom Matters" in *The Business Times*

Audit Committee Seminar 2018

This annual must-attend event for all AC members jointly organised by ACRA, SGX and SID is usually held in January of each year.

Date:	Tuesday, 16 January 2018
Time:	9.00 am to 11.15 am
Venue:	Marina Mandarin Hotel
Theme:	Rebooting Corporate Governance
Welcome:	Ong Khiaw Hong, ACRA
Keynote:	Chew Choon Seng, CG Council
Speakers:	Bong Yap Kim, ACRA Daniel Ee, SID June Sim, SGX RegCo Tan Boon Gin, SGX RegCo
Panellists:	Willie Cheng, SID Rachel Eng, WongPartnership Tham Sai Choy, ACRA

The next seminar will be in January 2019.

2018 PD Calendar for AC members

8 Jan	AC Pit-Stop: Financial Reporting & Audit Considerations for 2018
16 Jan	ACRA-SGX-SID Audit Committee Seminar
21 Feb	BFS3: Sustainability for Directors
23 Feb	DFF: Directors Financial Reporting Fundamentals
8 Mar	NPD6: Financial Management & Accountability (NonProfit Directors Programme)
14 Mar	LCD2: Audit Committee Essentials (Listed Company Directors Programme)
29 Mar	AC Pit-Stop: AML/CFT for Non-Financial Companies
18 Apr	DFF: Directors Financial Reporting Fundamentals
23 May	AC Pit-Stop: The AC's Role in Crisis Management
23 – 25 May	SDP3: Finance for Directors (SID-SMU Directorship Programme)
5 Jun	BDC3: Audit Committee Chairmen's Conversation (by invitation only)
28 Jun	AC Pit-Stop: Getting ready for FRS 116 (Leases)
29 Jun	DFF: Directors Financial Reporting Fundamentals
19 Jul	AC Pit-Stop: Harnessing the Full Potential of Internal Audit
15 Aug	DFF: Directors Financial Reporting Fundamentals
5-7 Sep	SDP3: Finance for Directors (SID-SMU Directorship Programme)
27 Sep	AC Pit-Stop: Base Erosion and Profit Sharing (BEPS) and Other Tax Implications for Boards and ACs
10 Oct	LCD2: Audit Committee Essentials (Listed Company Directors Programme)
21 Nov	LCD2: Audit Committee Essentials (Listed Company Directors Programme)
26 Nov	AC Pit-Stop: What ACs Need to know about Big Data, Crowd Funding & Regulatory Technology

Note: The above are professional development (PD) offerings from SID which are relevant to AC members. Course/event dates are subject to change and the latest details of all the sessions can be found at www.sid.org.sg/pdmap

2018 Mini-Guide for Audit Committees

Hot topics that ACs and directors need to know

2018 Corporate Governance Rule Changes
New Accounting Framework & Standards
Financial Reporting Surveillance Programme (FRSP)
Enhanced Auditor Reporting (EAR)
AC Support System
AC Resources 2018

ACRA — Accounting and Corporate Regulatory Authority
pwc
SID — Singapore Institute of Directors

2018 Corporate Governance Rule Changes

Beginning 2018, listed companies have to produce a sustainability report. More changes are expected in 2018 to the SGX Listing Rules (SGX LR) and the Code of Corporate Governance (CG Code) resulting from a review by the Corporate Governance Council.

Corporate Governance Council

An 18-member Corporate Governance Council was established in February 2017 to review and recommend:

- Changes to the CG Code so that it remains relevant and progressive.
- Enhancements to improve effectiveness of the "comply-or-explain" regime.
- Mechanisms to strengthen the engagement between stakeholders and companies on corporate governance matters.

The Council's recommendations will be first issued in a Consultation Paper expected in mid-January 2018. Thereafter, a final set of recommendations will be submitted to MAS for consideration. Subject to consultation feedback, a revised CG Code is expected to be issued in second half of 2018.

Expected changes in the CG Code

The proposed structure will seek to clarify the hierarchy of compliance:

- **SGX Listing Rules:** Non-compliance constitutes a breach of rules.
- **CG Code:** Applied on a "comply-or-explain" basis as follows:
  - **Principles.** These are over-arching statements which embody the fundamentals of good corporate governance. Compliance is required.
  - **Provisions.** Currently referred to as "Guidelines", these are actionable steps which guide companies to comply with the substance of the Principles. Companies are generally expected to comply with the Provisions but deviations are acceptable to the extent that companies explicitly state and explain how their practices are consistent with the Principle in question.

In addition, **Practice Guidance** may be issued - on a non-binding basis - to elaborate and provide guidance on the implementation of the CG Code to help users understand key topics under the CG Code.

The dual focus of the CG Code review has been to streamline and enhance the rules. Some of the current Guidelines may be migrated to the Listing Rules or Practice Guidance. The number of Principles and Provisions is expected to be reduced.

How you can participate

Provide your feedback to the CG Code Consultation Paper. Current schedule of feedback sessions on the Consultation Paper:

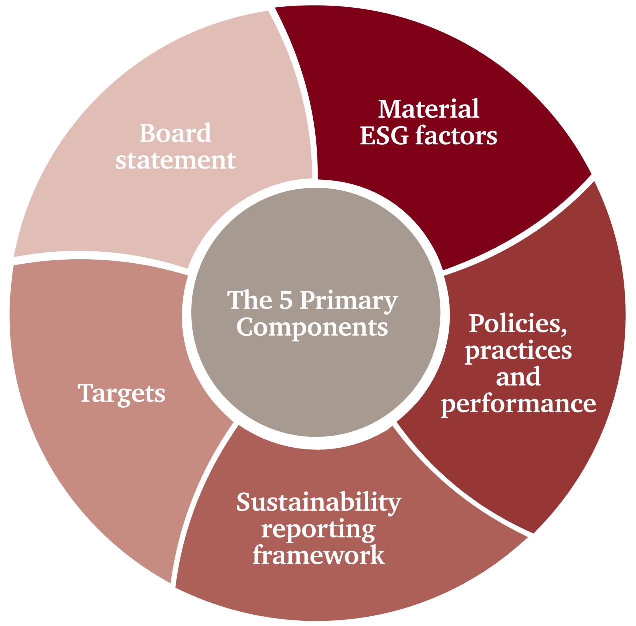
Dates: 1st & 6th February 2017

Time: 12 to 2 pm

Venue: SID Resource Centre, Capital Tower
168 Robinson Road
#09-06/07
Singapore 068912

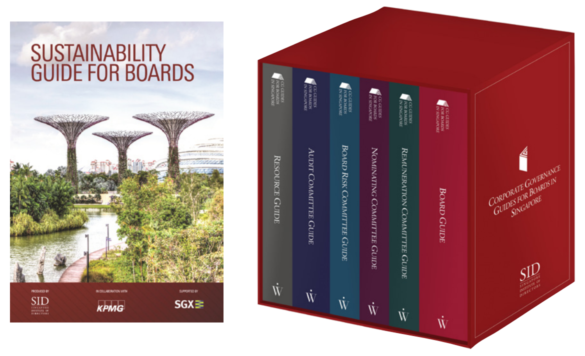
Sustainability Reporting

SGX LR 711A and 711B require every listed company to prepare an annual sustainability report for financial year-ends on or after 31 December 2017, with reference to five primary components on a "comply-or-explain" basis.



Resources to help you

Get your copy of the Sustainability Reporting Guide for Boards, and Corporate Governance Guides for Boards in Singapore (which will be updated for the revised CG Code in second half of 2018).



In addition, watch out for briefing sessions on the revised CG Code after it is issued.

New Accounting Framework & Standards

From 1 January 2018, a new accounting framework identical to the International Financial Reporting Standards (IFRS), known as "Singapore Financial Reporting Standards (International)" or "SFRS(I)s" required for all listed entities on SGX.

Companies with a December year-end should have implemented the new accounting standards on revenue SFRS(I) 15 and financial instruments SFRS(I) 9. Meanwhile, preparation should be underway for the new accounting standard for leases SFRS(I) 16 which kicks in from 1 January 2019.

- 1 Jan 18: "Go Live" for SFRS(I) 9, SFRS(I) 15 and adoption of SFRS(I)s
- 31 Mar 18: Q1 announcement for Dec YE under new standards
- 31 Dec 18: First set of SFRS(I)s financial statement for Dec YE
- 1 Jan 19: SFRS(I) 16 effective

Changes brought about by these new standards are likely to be significant for most companies. Below are key points that directors of companies should take note of in the new accounting standards.

SFRS(I) 9

Accounting for Financial Instruments
This standard introduces new classification and measurement requirements for financial assets and a new expected credit losses impairment model. Hedge accounting requirements are also amended.

My company does not have complex financial instruments and the most significant financial assets are receivables. Should we only focus on the new impairment requirements?

"It depends, some receivables may not be allowed to continue to be carried at amortised cost. If the entity's business model for the receivables is both to collect the contractual cash flows and selling the financial asset (e.g, through factoring), or that the cash flow from the receivables do not represent "solely payment of principal and interest" (eg. Cash flow benchmarked to results), the receivables are required to be carried at fair value with changes recognised in other comprehensive income or profit and loss. This creates volatility in results."

SFRS(I) 15

Accounting for Revenue from Contracts with Customers.
This standard introduces a new 'control'-based 5-step revenue recognition model with specific guidance on the recognition, measurement, presentation and disclosure of revenue transactions.

We have assessed that the new SFRS(I) 15 will not result in any changes in revenue recognition for my company. Thus, there is nothing further to do for the new revenue standard.

"Other than revenue recognition, SFRS(I) 15 introduces extensive new disclosure requirements for which data will need to be collated. For example, companies now have to disclose its revenue on a disaggregated basis in a manner that reconciles with its segmental disclosure. The amount of unearned revenue relating to unsatisfied revenue contracts, together with the expected timing of recognition, will also need to be disclosed."

SFRS(I) 16

Accounting for Leases
This standard introduces a new accounting in which a "right-of-use" asset and a corresponding lease liability would be recognised by lessees.

We have spent considerable time and effort to come up with the expected credit loss impairment model. Can we just rely on the same inputs in the impairment model going forward?

"No. The model should be fine-tuned to reflect the appropriate credit risk of each portfolio of debtors and forward-looking information that changes with macro-economic factors and economic outlook."

Under SFRS(I) 16, all we have to do is to capitalise all lease payments onto the balance sheet using an appropriate discount rate, and at the same time, recognise a corresponding lease liability.

"It depends. Companies with lease arrangements containing a service component will need to separate the lease component from the non-lease component. Only the lease component will be accounted for under SFRS(I) 16, while the non-lease component will be accounted for under other applicable standards (generally, expensed upon incurred for services)."

The new wave of accounting standards brings forth significant judgements and complexities which require ongoing monitoring and assessment for relevance. Entities 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. The positions taken for the new standards would need to be discussed and agreed with auditors and regulators, where relevant.

Financial Reporting Surveillance Programme (FRSP)

Under the FRSP, ACRA reviews financial statements for compliance with the accounting standards. Directors are encouraged to pay closer attention to the following areas when reviewing FY2017 financial statements[1]:

Areas	What ACs should consider
1. IFRS convergence & new accounting standards	• Ensure disclosure of known or reasonably estimable information from convergence to IFRS and the adoption of SFRS(1) 9 (financial instruments), SFRS(1) 15 (revenue accounting) and SFRS(I) 16 (leases). This will help financial statements users better understand the impact from adoption and convergence.
2. Impairment & valuation (assets to be carried at no more than recoverable amount)	• Assess if assumptions used to determine the recoverable amount are supportable and reasonably reflect the business plan, economic outlook and industry conditions. Request for sensitivity analysis of key assumptions, especially when the headroom is small or when the impairment charge seems unreasonable. • Consider if reversals of impairment, if any, are supported by real improvement in the underlying business. • Check that impairment disclosures include: (i) key assumptions, including growth in revenue, margins and costs; and (ii) assumptions that reflect past experience or are consistent with external sources of information.
3. Consolidation or equity accounting (whether to consolidate & date of acquisition)	• Determine whether to consolidate or not. Consider the purpose and design of the investment arrangements in determining whether the Group has control over the investees. Factors include potential shares (e.g. options or warrants), reserved matters (i.e. decisions that require unanimous shareholder consent), veto rights and non-equity instruments that grant decision making rights, which may affect accounting treatment. • Determine the right date of acquisition, i.e. the date when the Group obtains control over the subsidiary (which may not coincide with the date of the sale and purchase agreement). This date is important because: (i) Assets acquired (including intangible assets) and liabilities assumed are valued as of this date; and (ii) P&L of the subsidiary are included in the Group's results from this date (even when the Group may be entitled to the subsidiary's profits before the date of acquisition).

Enhanced Auditor Reporting (EAR)

The EAR standards took effect in Singapore in 2017. Key considerations for ACs from observations of a study[2] conducted after first year of implementation are:

Observations	What ACs should consider
1. Engaging the auditor Average number of key audit matters (KAMs) per entity reported by auditors (2.3) was half the average number of areas with significant accounting judgements/estimates disclosed by management in the financial statements (4.8).	Understand why certain areas with significant accounting judgements/estimates are not raised as KAMs and ensure that these areas are properly addressed by management.
2. AC Commentary 33% of analysed annual reports had ACs voluntarily[3] providing their views on significant accounting matters. 47% of the analysed AC commentary were found to be similar to the description of KAMs reported by the auditors.	Provide AC commentaries with deeper insights by including: • How the AC obtained comfort over those areas with significant accounting judgements/ estimates that are not reported as KAMs by the auditors. • How the AC ensured that management implemented effective internal control systems in the newly acquired subsidiary or business lines, which are not regarded material by auditor at this juncture (but will be material going forward). • How the AC ensured that management rectified the lapses in internal controls, failure in IT systems and other governance concerns to prevent recurrence.
3. Communication with shareholders 61% of ACs surveyed did not experience an increased engagement with shareholders over audit and accounting issues during AGMs.	Include and highlight AC commentary in the annual report, and explain how risks are being addressed by ACs and management. During AGMs, specifically invite questions relating to audit and accounting matters from shareholders.

[1] Details in the 2017 Practice Guidance at ACRA's website, www.acra.gov.sg.
[2] *Embracing Transparency, Enhancing Value*: A first year review of the enhanced auditors report in Singapore - a ACRA-ACCA-ISCA-NTU study, available at www.acra.gov.sg.
[3] In January 2017, ACRA, MAS and SGX issued a joint letter encouraging ACs to disclose: (a) significant financial reporting matters specific to the listed entity; (b) how the AC has assessed and concluded on each significant matter; and (c) significant judgement calls made.