2016

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

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Foreword

The job of the Audit Committee (AC) is not easy. The Statement of Good Practice by the Singapore Institute of Directors (SID) on "The role of the Audit Committee" says that the AC is the most important of the board committees as it is "the last line of defence for a company to prevent fraud and manage risks".

To assist it in its duties, the Accounting and Corporate Regulatory Authority (ACRA), the Monetary Authority of Singapore (MAS) and the Singapore Exchange (SGX) have produced a Guidebook for Audit Committees in Singapore. This AC Guidebook was first issued in 2008 and revised in 2014.

Since the 2014 edition, there have been several important developments. This mini-guide provides an understanding of these latest developments, alongside practical information on the four hot topics – as we like to think of them – relating to ACs, specifically:

I. ACRA's enhanced Financial Reporting Surveillance Programme (FRSP)
II. Enhanced Auditor Reporting
III. ACRA's Audit Quality Indicators (AQI) Disclosure Framework
IV. New/Revised Singapore Financial Reporting Standards (SFRS)

The SID, with the support of ACRA, the MAS and the SGX, and with resources from a number of professional firms, is producing a series of Corporate Governance Guides for Boards in Singapore. The AC Guidebook will be updated and integrated into this series, and will be available by early 2017.

In the meantime, we hope this mini-guide of the four hot topics will help ACs with their difficult, but very important, job.

Kenneth Yap
Chief Executive
ACRA

Yeoh Oon Jin
Executive Chairman
PwC

Willie Cheng
Chairman
SID

Abbreviations

ACRA	Accounting and Corporate Regulatory Authority
AC	Audit Committee
AQI	Audit Quality Indicators
ASC	Singapore Accounting Standards Council
FRS	Financial Reporting Standards
FRSP	Financial Reporting Surveillance Programme
IFRS	International Financial Reporting Standards
ISCA	Institute of Singapore Chartered Accountants
MAS	Monetary Authority of Singapore
SFRS	Singapore Financial Reporting Standards
SGX	Singapore Exchange
SID	Singapore Institute of Directors
SSA	Singapore Standards on Auditing

I Financial Reporting Surveillance Programme

What is it?
The Financial Reporting Surveillance Programme (FRSP) is a programme that ACRA, in its role as the regulator of companies in Singapore, has initiated.

Under the FRSP, ACRA reviews selected financial statements lodged with it and identifies those that possibly do not comply with the Singapore Financial Reporting Standards (SFRS). The companies selected for review are usually assessed to be in higher risk of issuing misstatements or omitting disclosures; and/or the companies are of significant public interest.

Following the review, ACRA may send a formal inquiry letter to the Board of Directors of the company (identifying each director who authorised the financial statements) seeking clarifications. The follow-up actions by ACRA will depend on the directors' responses to the inquiry letters.

When did the FRSP take effect?
The FRSP first started in 2011 and was enhanced in July 2014.

Whilst ACRA focused only on modified financial statements in the past (i.e. where the auditors have not expressed a "clean" opinion), in the enhanced programme, ACRA extends the selection to include reviews of financial statements of listed companies and non-listed companies that are of public interest where auditors have issued "clean" audit opinion.

Why should directors be concerned?
Sections 201(2) and 201(5) of the Companies Act place the responsibility on directors to ensure that the financial statements are "true and fair" and prepared "in compliance with the prescribed Accounting Standards", in this case, the SFRS.

If serious non-compliance is established, sanctions may be imposed on the directors. These can include a warning letter, a fine by offer of composition, and prosecution resulting in fines and/or imprisonment.

Under the SGX Listing Rules, as in all cases of regulatory action (including the issuance of warning letters), a director must declare, at his next appointment as a director of a SGX-listed company (including seeking re-appointments on his current board), that he has received a warning letter from a regulatory authority (in this case, ACRA).

In addition, the directors of a listed company must consider whether the regulatory sanction constitutes "material information" under the SGX Listing Rules in relation to the company and, if so, whether the company should make an announcement.

How should directors respond to ACRA's inquiry letter?
Typically, the AC will be tasked by the board to look into ACRA's inquiry letter.

The AC chairman should convene a meeting with the company's finance team and external auditor. The finance team should draft a response to ACRA prior to this meeting.

The AC should seek input from the finance team and external auditor on their views as to why they did not consider these as issues in the first place.

The AC should ensure that the proposed response to ACRA is comprehensive and appropriate, and that it fully answers and "closes off" further correspondence on the query. Otherwise, the risk is the arrival of a second letter requiring further clarification or, worse, a warning, a composition fine, or prosecution.

Some ACs had requested for physical meetings with ACRA as they felt it was difficult to explain their position on paper. Whilst ACRA had granted some meetings in exceptional cases involving highly complex matters, the discussion should be followed by the same explanation in writing. This would clearly document the board's basis of complying with the SFRS and serve as good record of the board's governance over financial reporting matters.

Once it is finalised by the AC, the draft response should be reviewed and approved by the board before it is submitted to ACRA. The board chairman or audit committee chairman should sign off the written response on behalf of the board to signify its leadership and commitment to ensure quality financial reporting.

The deadline for a formal response by the directors is usually two to three weeks from the date of the inquiry letter.

What kind of response would not pass muster?

The AC should scrutinise the draft response and challenge the answers and assumptions. While ACRA's inquiries and the company's responses will be specific to each company, the following common management responses are unlikely to be acceptable to ACRA:

- *The amount is immaterial and thus no further information is needed.* If ACRA had not deemed the item to be material, it would not have raised the query in the first place. At the minimum, there must be a satisfactory explanation of the qualitative and quantitative considerations that determine the company's definition of materiality.

- *The matter is confidential and the company is therefore unable to provide further information.* In the current environment of greater transparency, a response like this suggests the company may have something to hide, and this would only serve to make the regulator even more inquisitive. In any case, ACs should bear in mind that ACRA has the regulatory powers to access all accounting records of the company.

- *The estimated amount is a matter of judgement and that was our judgement.* ACRA and the accounting standards call for the company to have a proper basis and rigour in amounts that involve estimation and valuation. That basis and the detailed work undertaken to arrive at the estimates and valuation should be fully disclosed.

ACRA's October 2015 report on the FRSP, *Raising The Bar On Financial Reporting,* provides case studies of past responses that can be helpful for understanding the range of responses that are acceptable, and those that are not. These case studies also illustrate how directors could challenge management in their accounting treatments and assumptions in the first place to avoid the common pitfalls.

How can directors avoid receiving an inquiry letter in the first place?

In its October 2015 report, ACRA observed that it is the "lack of ownership by directors" in the financial reporting process that is the fundamental reason for most instances of non-compliance. It said that this lack of ownership mainly manifests itself in three ways:

1. *Insufficient scrutiny of financial statements*
   Some directors do not scrutinise the financial statements sufficiently and, hence, are unable to discern that the reported financial statements are inconsistent with their personal knowledge and understanding of the business.

2. *Over-reliance on accounting team who may lack competence or diligence*
   Some directors rely excessively on management, the finance team and auditors to ensure there are no accounting breaches. These directors defer unreservedly to management's judgements and do not seek additional advice even when they are uncomfortable with those judgements.

3. *Inadequate challenge of management's judgement by independent directors*
   There are instances where management's judgements are overly aggressive and deviate significantly from generally accepted accounting practices. In particular, the accounting positions that management adopt are not supported by analysis based on SFRS principles and guidelines, while documentary evidence demonstrating robust discussion of the accounting issues are also lacking.

Given these observations, directors, particularly AC members, should consider the following actions in discharging their duties:

1. *Ensure an appropriate level of financial literacy among board members*
   All board members, not just the AC, need to be financially literate, and be able to read basic financial statements. There are courses, such as the SID-ISCA Directors Financial Reporting Essentials, which provide directors without financial background with a basic understanding of financial statements. In addition, AC members need to keep up with the latest ACRA Practice Guidances and SFRS.

2. *Challenge the management team and auditors*
   Directors, especially independent directors, should spend the time to diligently review the accounting and financial statements and have the courage to challenge them when they are uncomfortable. They should persistently ask the right questions of the finance team and the auditors until they receive satisfactory answers.

3. *Ask questions in areas where errors are likely to arise*
   Some of these areas include:
   - Significant or complex transactions that occurred during the year. Non-recurring transactions can be complex and need special attention from management.
   - Areas involving significant judgement and estimates such as goodwill, valuations and impairment. Directors should challenge management's basis for the judgement or estimates applied to ensure that these are free of management bias and do not deviate from generally accepted accounting practices. They should ask for, and evaluate, documentation such as analysis for the accounting position taken, range of estimates, and current industry practices for benchmarking.

4. *Ensure that a competent finance team is in place*
   Errors in financial reporting can be avoided if the AC ensures a technically competent and adequately staffed finance team prepares the financial statements. Some measures of the quality of a finance team are: the number of corrected/uncorrected audit adjustments proposed by the auditors, the number of versions of financial statements before being finalised, and the annual hours of training attended by finance staff.

5. *Engage the auditors on a timely basis*
   Prior to the issuance of the audit report, the external auditor should communicate significant audit findings to the AC, including why it considers certain significant accounting practices are not appropriate to the particular circumstances of the company. The AC should ensure the independence of the external auditor from management.

6. *Use third party help when needed*
   External advice should be obtained when necessary, usually from the audit firm. Specifically, this could come from specialists working for the audit firm, but not from the team auditing the company. Alternatively, it could come from another audit firm which is not the incumbent auditor.

II Enhanced Auditor Reporting

What is it?

In July 2015, the Institute of Singapore Chartered Accountants issued new and revised auditor reporting standards that adopted the international equivalents. The move, following years of development, was a response to investors and other stakeholders calling for more informative auditor's reports.

The new standards are game-changing. They mark a move to reports that are more informative and insightful which will, it is hoped, stimulate and enhance conversations among auditors, analysts, investors, companies, ACs, shareholders and regulators.

Similar standards are already in place in the United Kingdom and in the Netherlands, and shareholder reactions there have been very positive, with some referring to a "sea change" in auditor reporting.

When do the changes come into effect?

The changes are effective for audits of financial statements for periods ending on or after 15 December 2016. However, companies can opt for early adoption.

What will the new auditor's report look like?

An example of the new auditor's report on the financial statements of a Singapore-listed company can be found in SSA 700 (revised). It is also included in Appendix A.

What are the key changes?

1. *Greater visibility for going concern*
   Going concern will be given more visibility in the auditor's report. In that respect, the responsibilities of both management and auditor regarding this will be described in the new reports. Where there is a material uncertainty about the entity's ability to continue as a going concern, this will now be highlighted in a separate, clearly identified section of the report. Even when the auditors conclude that there is no material uncertainty, one or more matters arising from their work in arriving at that conclusion could be considered a key audit matter.

2. *Restructuring of report for readability*
   The new auditor's report is restructured in a way that positions audit and entity-specific information, in particular, the audit opinion, at the beginning of the report. Boiler-plates – such as descriptions of the auditor's responsibilities and what is involved in an audit – is now placed at the end of the report.

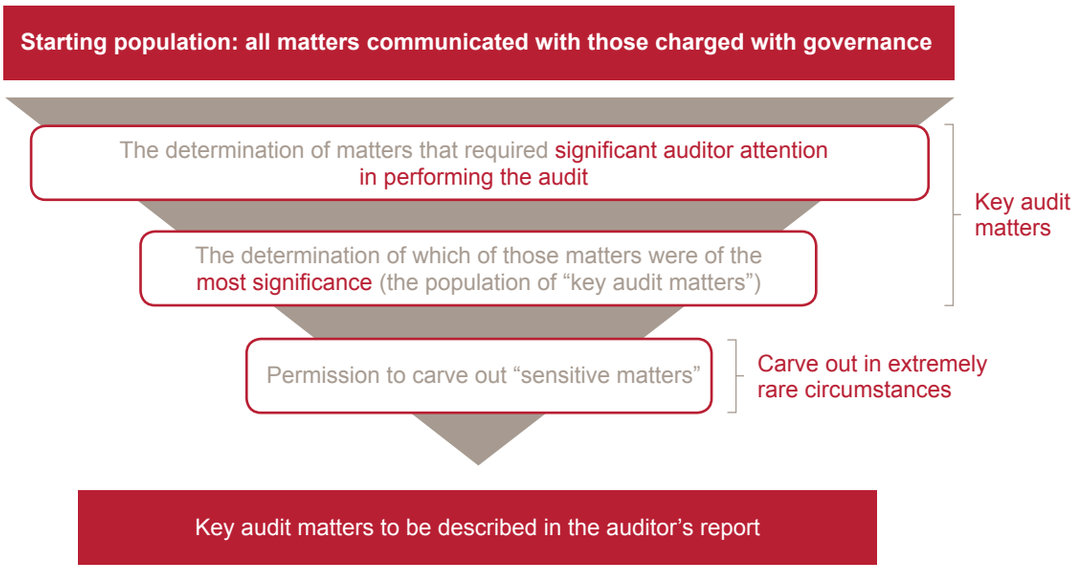
3. *Introduction of "key audit matters" for all listed entities*
   This is the most significant innovation in the enhanced report.

Key Audit Matters – what are these?

The introduction of 'key audit matters' (KAM) as a new section of the new auditor's report impacts all listed entities, regardless of (1) where they are listed and (2) whether the listing relates to equity or debt.

As the name suggests, KAMs are matters that, in the auditor's judgement, were of the most significance in the audit of the financial statements of the current period. While these will be drawn from discussions with the AC, it is not expected that all matters raised would be considered KAMs to be included in the auditor's report. This will involve an important multi-step judgement, an overview of which is provided in the diagram on the following page.

Selecting Key Audit Matters



The new SSA 701 notes that the concept of significant auditor attention "recognises that an audit is risk-based", and that often, attention needs to be directed "to areas of complexity and significant management judgement in the financial statements". These are, therefore, the areas that, "involve difficult or complex auditor judgements".

The auditor is also expected to take into account:

- Areas of higher risk of material misstatement.
- Areas requiring significant auditor and management judgement, including accounting estimates identified as having high uncertainty.
- The effect on the audit of significant events or transactions that occurred during that year.

There are some situations in which the auditor would not be required to disclose a matter, such as if law or regulation precludes it, or, in extremely rare circumstances, where the auditor decides that the adverse consequences of public communication of a matter would reasonably be expected to outweigh the public interest benefits.

The new SSA 701 requires the auditor to:

a) describe each KAM;

b) include a reference to related financial statement disclosures, if any; and

c) address why the matter was considered to be one of significance in the audit and how it was addressed in the audit.

While the amount of details to be provided in the new auditor's report is a matter of professional judgement for the auditor, the SSA notes that this may include:

- Aspects of the auditor's response or approach that were most relevant to the matter or specific to the assessed risk.
- A brief overview of procedures performed.
- An indication of the outcome of the auditor's procedures.
- Key observations of the matter.

Samples of KAMs disclosed in an auditor's report of a listed company in other reporting jurisdictions are set out in Appendix B.

What does the new auditor's report mean for the AC and its members?

The additional information provided in the new auditor's report will be of interest to investors, analysts, regulators, bankers and other stakeholders.

The content of the new auditor's report will be as new to management and ACs, and the users of the financial statements as it is to the auditors.

Auditors as well as ACs and management are advised to start putting in place procedures for familiarising themselves with, and preparing, these new reports.

How can ACs prepare for the enhanced auditor reporting?

An AC could ask the company's auditor to prepare a draft enhanced auditor's report for FY2015 even though the standard is not effective until a year later. Alternatively, the AC and the auditor could go further and agree to adopt the standard earlier. The AC could even ask what the KAMs of the previous financial year (say FY2014) would have looked like if the standard had been effective then.

When reviewing the new auditor's report for the company, the AC should consider undertaking the following:

- Understand the key changes, and assess the impact on the company and group.
- Decide if changes need to be made to the financial reporting process and controls.
- Agree on communication protocols to support ongoing communications, and enable early discussion of potentially difficult and contentious issues.
- Review the early drafts of the new auditor's report and understand the auditor's rationale for its selection of KAMs.
- Explore any inconsistencies between the KAMs and related disclosures made in the annual report.

ACs and management are also encouraged to ask their auditors the following questions:

- What are some common topics raised as KAMs in other territories for this industry?
- What measures has the auditor taken to ensure timely delivery of the auditor's report?
- How did the auditor determine the KAMs?

III Audit Quality Indicators Framework

What is it?
In October 2015, ACRA introduced an Audit Quality Indicators Disclosure Framework (the "AQI Framework").

This consists of eight quality indicators measured at firm and/or engagement levels which could be disclosed by audit firms to ACs in a private session. The disclosure of the AQIs are intended to provide ACs with more insights into audit quality.

When is the AQI Framework effective?
The AQI Framework is available for adoption from 1 January 2016 on a voluntary basis for all listed entities in Singapore.

Whilst not mandatory, ACs should look out for the sharing of these AQIs by their auditors and conduct robust discussions using the information provided.

What are the AQIs?
The eight AQIs are:

1) Audit Hours – Time Spent by Senior Audit Team Members
2) Experience – Years of Audit Experience and Industry Specialisation
3) Training – Average Training Hours and Industry Specific Training
4) Inspection – Results of External and Internal Inspections
5) Independence – Compliance with Independence Requirements
6) Quality Control – Headcount in Quality Control Functions
7) Staff Oversight – Staff per Partner/Manager Ratio
8) Attrition Rate – Degree of Personnel Losses

Appendix C defines these AQIs and the level (i.e. firm and/or engagement) at which they should be disclosed, their relevance to audit quality, and what ACs should look out for when they are presented with the AQIs by their auditors.

When should an AC use AQIs?
An AC can use the AQI framework in two situations:

- When selecting auditors for new appointment or re-appointment. The AQIs can be used to compare the audit firms and teams proposing to undertake the work.

- In an ongoing audit. The AQIs can be used to discuss the planning of the audit work (such as the team members to be used) and evaluate the auditor's performance.

What should the AC look out for when using the AQIs?
In general, the AC should:

- Use AQIs to guide conversations with auditors on audit quality matters. Where there are significant variances in a given period or unfavourable inspection results, ask for reasons and explanation from auditors before forming any conclusions.

- Use judgment when interpreting information resulting from the AQIs and how the AQIs correlate with each other. Evaluating a specific AQI in isolation may not project the true picture.

- Look out for historical trends. These may help set future expectations of the auditors. For example, in anticipation of a new major acquisition of a subsidiary, ACs may ask the audit partners and managers to be more involved.

- Complement the AQIs with existing AC resources and guidance, such as the 2014 *Guidebook for Audit Committees in Singapore* and the 2010 *ACRA-SGX Guidance to Audit Committees on Evaluation of Quality of Work Performed by External Auditors.*

Appendix C provides a description of what to look out for in each AQI.

IV New/Revised Singapore Financial Reporting Standards

What is it?

In Singapore, accounting standards prescribed by the Accounting Standards Council (ASC) are known as Singapore Financial Reporting Standards (SFRS) and these are substantially aligned with the existing International Financial Reporting Standards (IFRS) regime.

In May 2014, the ASC announced that Singapore-listed companies will apply a new financial reporting framework that is identical to IFRS for annual periods beginning on or after 1 January 2018. The new framework will fully converge SFRS with IFRS. Non-listed Singapore-incorporated companies may voluntarily apply the new framework.

Full convergence with IFRS will benefit Singapore-listed companies and their stakeholders due to the comparability offered when global standards are applied. It will also eliminate any perception that such companies may be applying standards that are different from IFRS. Companies that are listed or that have operations in multiple jurisdictions also stand to benefit as a single set of accounting standards will allow these companies to reduce the cost of preparing financial statements.

What are the key new and revised SFRS?

A few narrow-scope amendments to existing standards will come into effect for FY2015, though these are not expected to significantly impact financial statements due to the limited changes to existing rules.

Various new standards and amendments have also been issued as of the date of this publication but they will not be effective for periods beginning on 1 January 2015 (i.e. financial year ended 31 December 2015). Of these, FRS 109, “Financial instruments”, and FRS 115, “Revenue from contracts with customers”, are two new major initiatives that are expected to introduce significant changes for companies.

FRS 109, “Financial instruments”, is effective for annual periods beginning on or after 1 January 2018. It replaces the existing multiple classification and measurement models in FRS 39 “Financial instruments: recognition and measurement” with a single model. It also introduces a new expected credit loss model for impairment assessment, new hedge accounting rules that are more aligned with common risk management practices and relaxes the requirements for applying hedge accounting.

FRS 115, “Revenue from contracts with customers”, is effective for annual periods beginning 1 January 2018. Not only does it replace the existing FRS 18 “Revenue”, FRS 11 “Construction contracts” and other revenue-related interpretations, it introduces a new five-step revenue model that both focuses on the transfer of control of goods or services, and replaces the existing notion of risks and rewards. It also includes additional guidance specific for revenue-related issues such as licences and warranties, and accounting for variable considerations and bundled sales transactions.

Appendix D sets out details on the new/revised SFRSs and provides a summary of the accounting requirements.

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A Example of New Auditor's Report

Below is an example of an auditor's report on the financial statements of a Singapore incorporated listed company which has been prepared in accordance with the fair presentation framework under the revised SSA 700 (shown as Illustration 2 in the SSA).

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC Company (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 201X, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 201X and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with SSA 701.]

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation. The matters addressed by other law or regulation (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the SSAs as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the SSAs may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the SSAs where such a difference exists.]

The engagement partner on the audit resulting in this independent auditor's report is [name].

_____

Public Accountants and Chartered Accountants Singapore (Firm)

_____

(Date)

B Samples of Key Audit Matters

The following samples of Key Audit Matters (KAM) are extracts taken from the annual reports of companies in jurisdictions that have implemented corresponding standards for the new Auditor's Report earlier than Singapore.

1) Extracted from Page 65 of ASX Limited Annual Report 2015

Key audit matter

Valuation and existence of available-for-sale financial assets

We focused on this area due to the size of the balance and the inherent judgement involved in determining the fair value of financial instruments.

As at 30 June 2015 the available-for-sale assets were valued at $2,889.6m (2014: $2,407.8m).

Of these assets, $91.1m were classified as "level 1" financial instruments in accordance with the classification under Australian Accounting Standards where quoted prices in active markets are available for identical assets.

The remaining $2,798.5m were classified as "level 2" financial instruments in accordance with the classification under Australian Accounting Standards where values are derived from observable prices (or inputs to valuation models) other than quoted prices included within level 1.

The valuation of the level 2 securities therefore requires a higher degree of judgement.

Refer to page 49 note B2 (b) for details of the assets and page 53 note B3 (d) for the level 1 or 2 classification.

How our audit addressed the matter

Our audit procedures included the following:

We agreed available-for-sale security balances held at 30 June 2015 to Austraclear holdings statements. Austraclear provides depository, registration, cash transfer and settlement services for debt instrument securities in financial markets in Australia.

As Austraclear is owned and operated by the Company, our work included testing the:

1. controls used to manage and control the Information Technology activities and computer environment, covering the overall IT computer environment, program development, program changes, access to programs and data and computer operations in place at Austraclear;
2. operation of the Austraclear control that matches trade details between counterparties, by inputting a range of test trades, with both correct and incorrect details, to ensure that only appropriate trades were processed by the system; and
3. generation of the Austraclear holdings reports by running test reports and comparing the output to the observed data in the system.

We found these controls to be appropriately designed and operating effectively and the relevant reports generated from Austraclear could be relied upon for the purposes of our audit.

To test valuation we first understood and evaluated the controls in place over the valuation of available-for-sale securities.

For both level 1 and level 2 securities we then used independent sources of information to determine an acceptable range of valuations for 100% of the securities held at 30 June 2015, and compared this to the valuations recorded on the balance sheet.

We found that all securities tested were carried at values within the range of acceptable valuations that we independently calculated.

2) Extracted from Page 99 of Vodafone Group Plc Annual Report 2015

Area of focus

Taxation matters

The Group operates across a large number of jurisdictions and is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business including transfer pricing, indirect taxes and transaction-related tax matters. As at 31 March 2015, the Group has current taxes payable of £599 million.

We have focused on two matters relating to the legal claim in respect of withholding tax on the acquisition of Hutchison Essar Limited and the recognition and recoverability of deferred tax assets in Luxembourg and Germany.

Provisioning claim for withholding tax – there continues to be uncertainty regarding the resolution of the legal claim from the Indian authorities in respect of withholding tax on the acquisition of Hutchison Essar Limited.

Recognition and recoverability of deferred tax assets in Luxembourg and Germany – significant judgement is required in relation to the recognition and recoverability of deferred tax assets, particularly in respect of losses in Luxembourg and Germany.

Refer to the Audit and Risk Committee Report, note 1 – Basis of preparation (Critical accounting judgements and key sources of estimation uncertainty), note 6 – Taxation and note 30 – Contingent liabilities.

How our audit addressed the area of focus

We satisfied ourselves with the design and implementation of controls in respect of provisioning for withholding tax and the recognition and recoverability of deferred tax assets.

We used our specialist tax knowledge to gain an understanding of the current status of the Indian tax investigation and monitored changes in the disputes by reading external advice received by the Group, where relevant, to establish that the tax provisions had been appropriately adjusted to reflect the latest external developments.

In respect of the deferred tax assets, we assessed the recoverability of losses from a tax perspective through performing the following:

- understanding how losses arose and where they are located, including to which subgroups they are attributed;
- considering whether the losses can be reversed;
- assessing any restrictions on future use; and
- determining whether any of the losses will expire.

In addition we assessed the application of International Accounting Standard 12 – Income Taxes including:

- understanding the triggers for recognition of deferred tax assets;
- considering effects of tax planning strategies; and
- assessing recoverability of assets against forecast income streams, including reliability of future income projections.

We determined that the recognition of deferred tax assets during the period was appropriate, and that the recoverability of the deferred tax assets in Luxembourg and Germany is supported by forecast future taxable profits.

We validated the appropriateness of the related disclosures in note 6 and note 30 to the financial statements, including the enhanced disclosures made in respect of the utilisation period of deferred tax assets.

3) Extracted from Page 100 of Vodafone Group Plc Annual Report 2015

Area of focus

Provisions and contingent liabilities

There are a number of threatened and actual legal, regulatory and tax cases against the Group. There is a high level of judgement required in estimating the level of provisioning required.

Refer to the Audit and Risk Committee Report, note 1 – Basis of preparation (Critical accounting judgements and key sources of estimation uncertainty), note 17 – Provisions and note 30 – Contingent liabilities.

How our audit addressed the area of focus

In responding to this area of focus, our procedures included the following:

- testing key controls surrounding litigation, regulatory and tax procedures;
- where available, reading external legal opinions obtained by management;
- meeting with regional and local management and reading of subsequent Group correspondence;
- discussing open matters with the Group litigation, regulatory, general counsel and tax teams;
- assessing and challenging management's conclusions through understanding precedents set in similar cases; and
- circularising where appropriate of relevant third party legal representatives and direct discussion with them regarding certain material cases.

Based on the evidence obtained, while noting the inherent uncertainty with such legal, regulatory and tax matters, we determined the level of provisioning at 31 March 2015 to be appropriate and at a level consistent with previous periods.

We validated the completeness and appropriateness of the related disclosures through assessing that the disclosure of the uncertainties in note 17 and note 30 to the financial statements was sufficient.

4) Extracted from Page 105 of TUI Travel Plc Annual Report 2014

Area of focus

Effectiveness of internal controls

Refer to page 75 ('The effectiveness of Internal Control and the risk management framework' within the Audit Committee Report).

The overall control environment in the Group has improved over the last few years, with a change in approach from the Group management team and a greater focus on ensuring that controls in place are more robust and financial reporting more accurate.

The financial controls, processes and procedures across the Group are at varying stages of maturity and there are a large number of different financial systems in operation. Management is continuing to implement the COSO framework across the Finance function within the Group, with the aim of ensuring controls within the larger businesses are fully documented, owned by individuals within those businesses and evidence of the operation of the control is retained. The smaller businesses within the Group are required to operate a centrally defined list of minimum controls, providing additional assurance over the control environment.

We focused on this area because financial information at locations where the control environment is less mature is inherently more at risk of misstatement. These locations tend to be, but are not exclusively, the smaller businesses operated by the Group.

How our audit addressed the area of focus

We assessed the overall control environment of the Group including meeting with senior management and the Group's legal, compliance and internal audit functions.

We evaluated the progress of the Group's project that is designed to strengthen the tone at the top (including assessing the quality of internal audit and strengthening of risk management process and procedures) and to formalise certain controls, policies and processes to improve the robustness of the control environment throughout the businesses operated by the Group.

The Group is complex and we noted that although this project is becoming embedded within the larger businesses where the output is more formalised, within the smaller businesses the controls are less formal.

As a result, our audit approach incorporated:

- a greater focus on those reporting units and functions with weaker controls;
- a greater emphasis on substantive testing of transactions, balances and key reconciliations; and
- a greater emphasis on testing of manual journals.

After discussion with the Audit Committee we also included a greater number of smaller businesses in scope for an audit of their complete financial information.

No material misstatements were noted from these additional areas of focus and emphasis.

5) Extracted from Page 106 of TUI Travel Plc Annual Report 2014

Area of focus

Risk of fraud in revenue recognition

See note 1 to the financial statements for the Directors' disclosure of the related accounting policies, judgements and estimates for further information.

We focused on recognition of revenue because there can be a significant difference between the timing of receipt of cash from customers and the subsequent recognition of revenue on the holiday departure date. Due to manual intervention and the high volume of transactions, the high number of different reservation systems and the interfaces of these with the accounting records there is the potential for deliberate manipulation of error.

How our audit addressed the area of focus

We assessed the consistency of the application of the revenue recognition policy by reconsidering the accounting policy for the different sources of the Group's revenue. We tested the design and operating effectiveness of the controls (including IT controls) over revenue systems across the Group to determine the extent of additional substantive testing required and also tested key reservation system reconciliations at 30 September 2014. We found no material misstatements from our testing.

We checked that revenue had been recognised at the correct time by testing a sample of transactions and comparing the departure dates against which the revenue had been recognised. No exceptions were noted from our testing.

Our work also included testing a sample of manual journals which did not identify any items that could not be substantiated.

6) Extracted from Page 120 of Smith Group Plc Annual Report 2014

Area of focus

Goodwill and intangible asset impairment assessments, particularly in the Smiths Detection and Smiths Interconnect Divisions

Refer also to note 12 (pages 153–154).

The Group holds significant amounts of goodwill, acquired intangibles and development costs on the balance sheet, as detailed in note 11 to the financial statements. The risk is that these balances are overstated.

We focused on the estimated values in use of the Smiths Interconnect Power cash generating unit, which has a net book value of goodwill of £114.0m, and the Smiths Detection division, which has a net book value of goodwill of £368.6m, given their financial performance in the year. Smiths Interconnect Power's value in use exceeds its carrying value by £7.8m and Smiths Detection's value in use exceeds its carrying value by £165m.

How the scope of our audit addressed the area of focus

We evaluated the directors' future cash flow forecasts, and the process by which they were drawn up, including testing the underlying calculations and comparing them to the latest Board approved divisional budgets. We challenged:

- the directors' key assumptions for long term growth rates in the forecasts by comparing them to historical results, economic and industry forecasts; and
- the discount rate by assessing the cost of capital for the Group.

For the Smiths Interconnect Power cash generating unit and Smiths Detection division, we evaluated the reasonableness of the Directors' forecast performance by performing a sensitivity analysis around the key drivers of the cash flow forecasts, in particular:

- the current order book;
- the proportion of recent tenders which have been successful; and
- independent projections of the expected growth of key markets.

We also reviewed the director's assessment of the fair value less costs of disposal.

Having ascertained the extent of change in the assumptions that either individually or collectively would be required for the goodwill to be impaired, we considered the likelihood of such a movement in those key assumptions and the disclosures on sensitivity analyses set out in note 12.

7) Extracted from Page 121 of Smith Group Plc Annual Report 2014

Area of focus

Product litigation provisions for asbestos in John Crane, Inc. and flexible gas piping product in Titeflex Corporation, a subsidiary of the Flex-Tek Division

Refer also to note 23 (page 165–167).

John Crane, Inc., a US based subsidiary of the Group, is currently one of many co-defendants in litigation relating to products previously manufactured which contained asbestos. As described in note 23 to the financial statements, a provision of £204.1m has been made for the future defence costs which the Group is expected to incur and the expected costs of future adverse judgments against John Crane, Inc.

Titeflex Corporation, another US based subsidiary of the Group, has received a number of claims from insurance companies seeking recompense on a subrogated basis for the effects of damage allegedly caused by lightning strikes in relation to its flexible gas piping product. It has also received a number of product liability claims regarding this product, some in the form of purported class actions. As described in note 23 to the financial statements, a provision of £61.1m has been made for the costs which the Group is expected to incur in respect of these claims.

We focused on these areas because there is significant judgement involved in the assumptions used to estimate the provisions, in particular those relating to the US litigation environment such as the future level of claims and the cost of defence. As a result the provision may be subject to potentially material revisions from time to time.

How the scope of our audit addressed the area of focus

In John Crane Inc. we used our own specialist knowledge to challenge management's assumptions underlying the adverse judgement and defence cost provisions. This included a review of the model maintained by management's valuation expert, in addition to testing the mathematical accuracy of the underlying calculations and the input data.

At Titeflex Corporation we challenged management's underlying assumptions supporting their provision. This included an evaluation of the valuation model, in addition to testing the mathematical accuracy of the underlying calculations and the input data such as the average amount of settlements, the number of future settlements and the period over which expenditure can be reasonably estimated.

We also discussed these matters with the Company's internal legal counsel, obtained letters from external counsel and evaluated the appropriateness of the disclosures made in the Group financial statements.

C Audit Quality Indicators

Type	AQI	What does this AQI tell you?	What to ask or look out for?
Engagement	**1) Audit hours** Time spent by the senior audit team members in absolute hours and relative to total audit hours.	**Extent of involvement of senior audit team members.** Audit quality is likely to increase with higher levels of involvement by senior audit team members who possess the requisite knowledge and experience. A higher level of involvement also indicates more supervision of work performed by less experienced staff.	• Do the senior audit team members contribute sufficient time to the audit? • Is the number of hours appropriate for the size and complexity of the audit?
Engagement	**2) Experience** Years of audit experience of the audit team members and the industry-specific experience of the senior audit team members.	**The audit firm's ability to deploy experienced resources to the audit engagement based on its risk and complexity.** Audit quality is likely to increase with more experienced audit team members as they will likely have greater knowledge and competence to perform the audit effectively. Experienced audit teams, particularly those with relevant experience in the specific industry, would presumably be able to better understand and deal with industry issues.	• Do the senior audit team members have relevant experience and industry focus? • Does the audit team comprise of mostly inexperienced staff?

Type	AQI	What does this AQI tell you?	What to ask or look out for?
Engagement & Firm	**3) Training** Average structured training hours of the partners, managers and staff of the firm, and the industry specific training received by the senior audit team members.	**Hours invested in the firm's auditors to equip them with the required knowledge and skills to perform effective and quality audits, and help keep up with developments in the auditing and accounting space.** Audit quality is likely to increase with: • higher training hours as auditors are upgrading their capability to perform effective audits, as well as to keep abreast of changes in accounting and auditing standards; and • higher level of industry-specific training provided to senior team members as it would increase their familiarity and ability to identify, understand and resolve the industry related auditing and accounting issues.	• What kind of training does the firm provide? • Is sufficient industry-specific training provided to all professional staff? • Has the audit team been trained on the new/ revised SFRS that are applicable this year? • Has the audit team been trained on the new issues facing the group due to a new business segment or acquisition?
Engagement & Firm	**4) Inspections** Results of external and internal audit quality inspections of the firm, the audit engagement partner and concurring partner.	**The firm, audit engagement partner and concurring partner's ability to consistently execute quality audits.** The aim of audit inspections is to independently check if the auditor had performed the audit procedures in compliance with the applicable auditing standards and/or the other applicable policies. Inspection results should indicate the quality of the audits led by the audit partner. This is relevant for assessing their technical competency, workloads, and ability to maintain audit quality consistently. Audit quality is likely to increase with consistent favourable inspection results. However, unfavourable inspection results are not conclusive of an audit firm's ability to deliver quality audits.	• Are there repeated unfavourable inspection findings? • Are the findings applicable to the engagement? • What actions are taken by the firm to address any shortcoming, and what is the status of the remediation plan? *Note: When inspection results are unfavourable, do not immediately:* • Conclude audit failure, i.e. inappropriate audit report. • Dismiss an audit firm based on the results without further understanding the root cause of the findings.

Type	AQI	What does this AQI tell you?	What to ask or look out for?
Engagement & Firm	**5) Independence** Independence breaches at the audit firm level and at the audit team level.	**The audit firm's commitment to maintaining its independence as auditors.** Failure to comply with independence requirements could compromise audit quality as it may give rise to potential conflict of interests that render unreliable the auditor's judgments and resulting audit opinion.	• Has there been a high frequency of independence breaches within the firm? • How did the firm remedy the independence breaches?
Firm	**6) Quality control** Headcount in the quality control functions of the audit firm, such as risk management and independence, technical, training and quality assurance.	**The audit firm's commitment to provide central resources to support the execution of quality audits.** Audit quality is likely to increase with more resources in the quality control functions dedicated to support the audit teams. Quality control functions can enhance the capabilities of audit teams through their specialist knowledge, particularly in resolving complex, unusual and/or judgmental aspects of an audit. Monitoring functions carried out by quality control functions also help ensure compliance with the audit firm's audit processes and guidelines, and maintain audit quality across different audit engagements.	• Is the headcount in the quality control function sufficient to support the number of audit staff? • Does the audit team have easy access to personnel in the quality control functions?

Type	AQI	What does this AQI tell you?	What to ask or look out for?
Firm	**7) Staff Oversight** Ratio of firm's professional staff and managers to partners, and ratio of professional staff to managers.	**The capacity of senior audit team members to supervise junior audit team members in the audit firm.** Audit quality is likely to increase with lower staff per partner/manager ratios. Higher ratios increase the risk that partners and managers have wider scope of supervision and review responsibilities which may distract them from giving adequate and focused attention to a particular audit engagement.	• Do the ratios at the firm level reflect the ratios of the audit engagement team? • Has there been a significant fluctuation in the ratios over the year? • How does the partner or manager ensure adequate supervision despite relatively high ratios?
Firm	**8) Attrition Rate** The firm's staff turnover rate.	**The audit firm's ability to retain knowledge and experience.** Whilst some attrition is expected, audit quality is likely to be significantly affected by excessively high attrition rates in an audit firm. Besides the loss of knowledge and experience, the audit firm may also face difficulties re-hiring auditors with similar levels of experience and competency. This can inhibit the audit firm's capability to identify and resolve audit and accounting issues effectively.	• Has there been a significant increase in the attrition rate in the current year as compared to previous years? • What is the audit firm's hiring plan? What are the initiatives to retain and attract talent? • Is the firm's attrition rate reflective of the turnover seen in the audit engagement team?

D Summary of New/Revised SFRS

The following are amendments to SFRS and new SFRS grouped by their effective dates:

(A) Effective for annual periods beginning on or after 1 July 2014 *(i.e. financial year ended on or after 30 June 2015)*		
1)	Amendments to FRS 19R Employee Benefits – Defined Benefit Plans: Employee Contributions	31
2)	Annual improvements 2012 2.1) Amendments to FRS 16 Property, Plant and Equipment and FRS 38 Intangible Assets 2.2) Amendments to FRS 24 Related Party Disclosures 2.3) Amendments to FRS 102 Share based Payment 2.4) Amendments to FRS 103 Business Combinations 2.5) Amendments to FRS 108 Operating Segments	31
3)	Annual improvements 2013 3.1) Amendments to FRS 40 Investment Property 3.2) Amendments to FRS 103 Business Combinations 3.3) Amendments to FRS 113 Fair Value Measurement	32
(B) Effective for annual periods beginning on or after 1 January 2016		
1)	FRS 114 Regulatory Deferral [New]	33
2)	Amendments to FRS 1 Presentation of Financial Statements – Disclosure Initiative	33
3)	Amendments to FRS 16 Property, Plant and Equipment and FRS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation	33
4)	Amendments to FRS 16 Property Plant and Equipment and FRS 41 Agriculture – Accounting for bearer plants	34
5)	Amendments to FRS 27 Separate Financial Statements – Equity method in Separate Financial Statements	34
6)	Amendments to FRS 110 Consolidated Financial Statements and FRS 28 Investments in Associates and Joint Ventures – Investment entities: Applying the consolidation exception	34
7)	Amendments to FRS 110 Consolidated Financial Statements and FRS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	35
8)	Amendments to FRS 111 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations	35
9)	Annual improvements 2014 9.1) Amendments to FRS 19 Employee Benefits 9.2) Amendments to FRS 34 Interim Financial Reporting 9.3) Amendments to FRS 105 Non-current Assets Held for Sale and Discontinued Operations 9.4) Amendments to FRS 107 Financial Instruments: Disclosures	36
(C) Effective for annual periods beginning on or after 1 January 2018		
1)	FRS 109 Financial Instruments [New]	37
2)	FRS 115 Revenue from Contracts with Customers [New]	40

Standards	Summary of new/revised standards
(A) Effective for annual periods beginning on or after 1 July 2014	
1) Amendments to FRS 19 (R) Employee Benefits – Defined Benefits Plans: Employee Contributions	The amendments clarify the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits. Under the previous version of FRS 19, most entities deducted the contributions from the cost of the benefits earned in the year the contributions were paid. However, the treatment under the 2011 revised standard was not so clear. It could be quite complex to apply, as it requires an estimation of the future contributions receivable and an allocation over future service periods. To provide relief, changes were made to FRS 19R. These allow contributions that are linked to service, but that do not vary with the length of employee service (e.g. a fixed percentage of salary), to be deducted from the cost of benefits earned in the period that the service is provided. Therefore many entities will be able to (but not be required) continue accounting for employee contributions using their existing accounting policy.
2) Annual improvements 2012	
2.1) Amendments to FRS 16 Property, Plant and Equipment and FRS 38 Intangible Assets	Both standards are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is restated to the revalued amount. The split between gross carrying amount and accumulated depreciation is treated in one of the following ways: a) either the gross carrying amount is restated in a manner consistent with the revaluation of the carrying amount, and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses; or b) the accumulated depreciation is eliminated against the gross carrying amount of the asset.
2.2) Amendments to FRS 24 Related Party Disclosures	The amendment includes, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'). The reporting entity is not required to disclose the compensation paid by the management entity to the management entity's employees or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided.
2.3) Amendments to FRS 102 Share-based Payment	The amendment clarifies the definition of 'vesting condition' and now distinguishes between 'performance condition' and 'service condition'.

Standards	Summary of new/revised standards
(A) Effective for annual periods beginning on or after 1 July 2014 (continued)	
2) Annual improvements 2012 (continued)	
2.4) Amendments to FRS 103 Business Combination	The standard clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in FRS 32, 'Financial instruments: Presentation'. The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Consequential changes are also made to FRS 37 and FRS 39.
2.5) Amendments to FRS 108 Operating Segments	The amendment requires disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.
3) Annual improvements 2013	
3.1) Amendments to FRS 40 Investment Property	The amendment clarifies that FRS 40 and FRS 103 are not mutually exclusive. The guidance in FRS 40 only relates to distinguishing between investment property and owner-occupied property. Preparers also need to refer to the guidance in FRS 103 to determine whether the acquisition of an investment property is a business combination.
3.2) Amendments to FRS 103 Business Combination	The amendment clarifies that FRS 103 does not apply to the accounting for the formation of any joint arrangement under FRS 111 in the financial statements of the joint arrangement itself.
3.3) Amendments to FRS 113 Fair Value Measurement	The amendment clarifies that the portfolio exception in FRS 113, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of FRS 39.

Standards	Summary of new/revised standards
(B) Effective for annual periods beginning on or after 1 January 2016	
1) FRS 114 Regulatory Deferral Accounts (New)	FRS 114 is an interim standard which provides relief for first-adopters of SFRS in relation to the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts'). The standard permits these entities to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral accounts.
2) Amendments to FRS 1 Presentation of financial statements – Disclosure initiative	The amendments provide clarifications on a number of issues related to improving financial statement disclosures, including: • Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance. • Disaggregation and subtotals – line items specified in FRS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals. • Notes – confirmation that the notes do not need to be presented in a particular order. • OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income. According to the transitional provisions, the disclosures in FRS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.
3) Amendments to FRS 16 Property, Plant and Equipment and FRS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation	The amendments clarify that a revenue-based method of depreciation or amortisation is generally not appropriate. FRS 16 is amended to clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment. FRS 38 is amended to include a rebuttable presumption that the amortisation of intangible assets based on revenue is inappropriate. This presumption can be overcome if either: • The intangible asset is expressed as a measure of revenue (ie where a measure of revenue is the limiting factor on the value that can be derived from the asset), or • It can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

Standards	Summary of new/revised standards
(B) Effective for annual periods beginning on or after 1 January 2016 (continued)	
4) Amendments to FRS 16 Property, Plant and Equipment and FRS 41 Agriculture – Accounting for bearer plants	FRS 41 now distinguishes between bearer plants and other biological assets. Bearer plants must be accounted for as property plant and equipment and measured either at cost or revalued amounts, less accumulated depreciation and impairment losses. A bearer plant is defined as a living plant that: • is used in the production or supply of agricultural produce • is expected to bear produce for more than one period, and • has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. Agricultural produce growing on bearer plants remains within the scope of FRS 41 and is measured at fair value less costs to sell with changes recognised in profit or loss as the produce grows.
5) Amendments to FRS 27 Separate Financial Statements – Equity method in separate financial statements	The amendments to FRS 27 will allow entities to use the equity method in their separate financial statements to measure investments in subsidiaries, joint ventures and associates. FRS 27 currently allows entities to measure their investments in subsidiaries, joint ventures and associates either at cost or as a financial asset in their separate financial statements. The amendments introduce the equity method as a third option. The election can be made independently for each category of investment (subsidiaries, joint ventures and associates). Entities wishing to change to the equity method must do so retrospectively.
6) Amendments to FRS 110 Consolidated financial statements and FRS 28 Investments in associates and joint ventures – Investment entities: Applying the consolidation exception	The amendments to FRS 110 and FRS 28 clarify that: • The exception from preparing consolidated financial statements is also available to intermediate parent entities which are subsidiaries of investment entities. • An investment entity should consolidate a subsidiary which is not an investment entity and whose main purpose and activity is to provide services in support of the investment entity's investment activities. • Entities which are not investment entities but have an interest in an associate or joint venture which is an investment entity have a policy choice when applying the equity method of accounting. The fair value measurement applied by the investment entity associate or joint venture can either be retained, or a consolidation may be performed at the level of the associate or joint venture, which would then unwind the fair value measurement. Early adoption is permitted.

Standards	Summary of new/revised standards
(B) Effective for annual periods beginning on or after 1 January 2016 (continued)	
7) Amendments to FRS 110 Consolidated Financial Statements and FRS 28 Investments in Associates and Joint Ventures – Sale or contribution of assets between an investor and its associate or joint venture	The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in FRS 103). Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investors in the associate or joint venture. The amendments apply prospectively.
8) Amendments to FRS 111 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations	The amendments to FRS 111 clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. They require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business. This includes: • measuring identifiable assets and liabilities at fair value, • expensing acquisition-related costs, • recognising deferred tax, and • recognising the residual as goodwill, and testing this for impairment annually. Existing interests in the joint operation are not remeasured on acquisition of an additional interest, provided joint control is maintained. The amendments also apply when a joint operation is formed and an existing business is contributed.

Standards	Summary of new/revised standards
(B) Effective for annual periods beginning on or after 1 January 2016 (continued)	
9) Annual improvements 2014	
9.1) Amendments to FRS 19 Employee Benefits	The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retrospective but limited to the beginning of the earliest period presented.
9.2) Amendments to FRS 34 Interim Financial Reporting	The amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. The amendment further amends FRS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.
9.3) Amendments to FRS 105 Non current assets held for sale and discontinued operations	The amendment clarifies that, when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as 'held for sale' or 'held for distribution' simply because the manner of disposal has changed. The amendment also rectifies an omission in the standard by explaining that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not reclassified as 'held for sale'.
9.4) Amendments to FRS 107 Financial Instruments: Disclosures	There are two amendments to FRS 107. 1) *Servicing contracts* If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, FRS 107 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. FRS 107 provides guidance on what is meant by continuing involvement in this context. The amendment adds specific guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement. The amendment is prospective with an option to apply retrospectively. A consequential amendment to FRS 101 is included to give the same relief to first-time adopters. 2) *Interim financial statements* The amendment clarifies that the additional disclosure required by the amendments to FRS 107, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by FRS 34. The amendment is retrospective.

Standards	Summary of new/revised standards
(C) Effective for annual periods beginning on or after 1 January 2018	
1) FRS 109 Financial Instruments (New)	**What are the key provisions?** **Classification and measurement** FRS 109 has three classification categories for debt instruments: amortised cost, fair value through other comprehensive income ('FVOCI') and fair value through profit or loss ('FVPL'). Classification under FRS 109 for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ('SPPI'). An entity's business model is how an entity manages its financial assets in order to generate cash flows and create value for the entity. That is, an entity's business model determines whether the cash flows will result from collecting contractual cash flows, selling financial assets or both. If a debt instrument is held to collect contractual cash flows, it is classified as amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held both to collect assets' contractual cash flows and to sell the assets are classified as FVOCI. Under the new model, FVPL is the residual category – financial assets should therefore be classified as FVPL if they do not meet the criteria of FVOCI or amortised cost. Regardless of the business model assessment, an entity can elect to classify a financial asset at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch'). **Expected credit losses** FRS 109 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. The ECL model constitutes a change from the guidance in FRS 39 and seeks to address the criticisms of the incurred loss model which arose during the economic crisis. In practice, the new rules mean that entities will have to record a day 1 loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). FRS 109 contains a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables. **Disclosures** Extensive disclosures are required, including reconciliations from opening to closing amounts of the ECL provision, assumptions and inputs and a reconciliation on transition of the original classification categories under FRS 39 to the new classification categories in FRS 109.

Standards	Summary of new/revised standards
(C) Effective for annual periods beginning on or after 1 January 2018 (continued)	
1) FRS 109 Financial Instruments (New) (continued)	**Hedge accounting** *Hedge effectiveness tests and eligibility for hedge accounting* FRS 109 relaxes the requirements for hedge effectiveness and, consequently to apply hedge accounting. Under FRS 39, a hedge must be highly effective, both going forward and in the past (that is, a prospective and retrospective test, with results in the range of 80%–125%). FRS 109 replaces this bright line with a requirement for an economic relationship between the hedged item and hedging instrument, and for the 'hedged ratio' to be the same as the one that the entity actually uses for risk management purposes. Hedge ineffectiveness will continue to be reported in profit or loss (P&L). An entity is still required to prepare contemporaneous documentation; however, the information to be documented under FRS 109 will differ. *Hedged items* The new requirements change what qualifies as a hedged item, primarily by removing restrictions that currently prevent some economically rational hedging strategies from qualifying for hedge accounting. For example: • Risk components of non-financial items can be designated as hedged items, provided they are separately identifiable and reliably measurable. This is good news for entities that hedge only a component of the overall price of non-financial items such as the oil price component of jet fuel price exposure, because it is likely that more hedges will now qualify for hedge accounting. • Aggregated exposures (that is, exposures that include derivatives) can be hedged items. • FRS 109 makes the hedging of groups of items more flexible, although it does not cover macro hedging (this will be the subject of a separate discussion paper in the future). Treasurers commonly group similar risk exposures and hedge only the net position (for example, the net of forecast purchases and sales in a foreign currency). Under FRS 39, such a net position cannot be designated as the hedged item; but FRS 109 permits this if it is consistent with an entity's risk management strategy. However, if the hedged net position consists of forecast transactions, hedge accounting on a net basis is only available for foreign currency hedges. • FRS 109 allows hedge accounting for equity instruments measured at fair value through other comprehensive income (OCI), even though there will be no impact on P&L from these investments.

Standards	Summary of new/revised standards
(C) Effective for annual periods beginning on or after 1 January 2018 (continued)	
1) FRS 109 Financial Instruments (New) (continued)	*Hedging instruments* FRS 109 relaxes the rules on the use of some hedging instruments as follows: • Under FRS 39, the time value of purchased options is recognised on a fair value basis in P&L, which can create significant volatility. FRS 109 views a purchased option as similar to an insurance contract, such that the initial time value (that is, the premium generally paid for an at or out of the money option) must be recognised in P&L, either over the period of the hedge (if the hedge item is time related, such as a fair value hedge of inventory for six months), or when the hedged transaction affects P&L (if the hedge item is transaction related, such as a hedge of a forecast purchase transaction). Any changes in the option's fair value associated with time value will be recognised in OCI. • A similar accounting treatment to options can also be applied to the forward element of forward contracts and to foreign currency basis spreads of financial instruments. This should result in less volatility in P&L. • Under FRS 39, non-derivative financial items were allowed for hedge of FX risk. The eligibility of non-derivative financial items as hedging instruments is extended to non-derivative financial items accounted for at fair value through P&L. **Accounting, presentation and disclosure** The accounting and presentation requirements for hedge accounting in FRS 39 remain largely unchanged in FRS 109. However, entities will now be required to reclassify the gains and losses accumulated in equity on a cash flow hedge to the carrying amount of a non-financial hedged item when it is initially recognised. This was permitted under FRS 39, but entities could also choose to accumulate gains and losses in equity. Additional disclosures are required under the new standard. **Own credit risk in financial liabilities** Although not related to hedge accounting, FRS 109 was also amended to allow entities to early adopt the requirement to recognise in OCI the changes in fair value attributable to changes in an entity's own credit risk (from financial liabilities that are designated under the fair value option). This can be applied without having to adopt the remainder of FRS 109. ***Insight*** FRS 109 applies to all entities. However, financial institutions and other entities with large portfolios of financial assets measured at amortised cost or FVOCI will be the most effected and in particular, by the ECL model. It is critical that these entities assess the implications of the new standard as soon as possible. It is expected that the implementation of the new ECL model will be challenging and might involve significant modifications to credit management systems.

Standards	Summary of new/revised standards
(C) Effective for annual periods beginning on or after 1 January 2018 (continued)	
2) FRS 115 Revenue from Contracts with Customers (New)	**What are the key provisions?** Summarised below are some of the areas that could create the most significant challenges for entities as they transition to the new standard. **Transfer of control** Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. Transfer of control is not the same as transfer of risks and rewards, nor is it necessarily the same as the culmination of an earnings process as it is considered today. Entities will also need to apply new guidance to determine whether revenue should be recognised over time or at a point in time. **Variable consideration** Entities might agree to provide goods or services for consideration that varies upon certain future events occurring or not occurring. Examples include performance bonuses and penalties. These amounts are often not recognised as revenue today until the contingency is resolved. Now, an estimate of variable consideration is included in the transaction price if it is highly probable that the amount will not result in a significant revenue reversal if estimates change. Even if the entire amount of variable consideration fails to meet this threshold, management will need to consider whether a portion (a minimum amount) does meet the criterion. This amount is recognised as revenue when goods or services are transferred to the customer. This could affect entities in multiple industries where variable consideration is currently not recorded until all contingencies are resolved. Management will need to reassess estimates each reporting period, and adjust revenue accordingly. There is a narrow exception for intellectual property (IP) licences where the variable consideration is a sales-or usage-based royalty. **Allocation of transaction price based on relative stand-alone selling price** Entities that sell multiple goods or services in a single arrangement must allocate the consideration to each of those goods or services. This allocation is based on the price an entity would charge a customer on a stand-alone basis for each goods or services that have not previously required this assessment, such as entities that report under US GAAP and issue customer loyalty points. **Licences** Entities that license their IP to customers will need to determine whether the licence transfers to the customer over time or at a point in time. Revenue is either recognised over time or at a point in time depending on whether the licence granted provides the customer a right to use or right to access to the entity's IP. The standard includes several examples to assist entities making this assessment.

Standards	Summary of new/revised standards
(C) Effective for annual periods beginning on or after 1 January 2018 (continued)	
2) FRS 115 Revenue from Contracts with Customers (New) (continued)	**Time value of money** Some contracts provide the customer or the entity with a significant financing benefit due to performance by an entity and payment by its customer occurring at significantly different times. An entity should adjust the transaction price for the time value of money if the contract includes a significant financing component. The standard provides certain exceptions to applying this guidance and a practical expedient which allows entities to ignore time value of money if the time between transfer of goods or services and payment is less than one year. **Contract costs** Entities sometimes incur costs (such as sales commissions) to obtain or fulfil a contract. Contract costs that meet certain criteria are capitalised as an asset and are amortised as revenue is recognised. More costs are expected to be capitalised in some situations. Management will also need to consider how to account for contract costs incurred for contracts that are not completed upon the adoption of the standard. **Disclosures** Extensive disclosures are required to provide greater insight into both revenue that has been recognised, and revenue that is expected to be recognised in the future from existing contracts. Quantitative and qualitative information will be provided about the significant judgements and changes in those judgements that management made to determine revenue that is recorded.

Additional Resources

- **ACRA, MAS and SGX (2014)**
  Guidebook for Audit Committees in Singapore, 2nd edition

- **ACRA (2015)**
  Financial Reporting Surveillance Programme Inaugural Report

- **ACRA (2014)**
  Practice Direction No. 2 of 2014: Directors' Duties in relation to Financial Reporting and Review and Sanction Process of the Financial Reporting Surveillance Programme Administered by ACRA

- **ACRA (2015)**
  Guidance to Audit Committees on ACRA's AQIs Disclosure Framework

- **PricewaterhouseCoopers LLP (2015)**
  A Practical Guide to New Singapore Financial Reporting Standards for 2015

- **PricewaterhouseCoopers LLP (2015)**
  Delivering the Value of the Audit

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