

# ACRA 2017 Regulatory Updates

**Audit Committee Seminar  
13 January 2017**

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Senior Director,  
Financial Reporting &  
Strategy Division**



# Agenda

## 1 Enhanced Auditor's Report (EAR)

- What are some implementation issues that ACs should be alerted to?

## 2 Audit Quality Indicators (AQIs) Disclosure Framework

- How could ACs use the six new targets for AQIs?

## 3 Financial Reporting Surveillance Programme

- How are ACs affected by the revised FRSP policies?
- What areas should ACs focus on for 2016 FS?

# 1. Enhanced Auditor's Report (EAR)

- Some implementation considerations

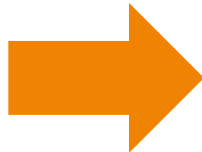


# EAR will add transparency in the market through new reportable items

Pre-EAR

EAR (from 15 Dec 2016)

Pass / Fail Opinion



To stay



Whether Material Uncertainties on Going Concern Are Adequately Disclosed?



Key Audit Matters



Other Information

1 Enhanced Auditor's Report

2 Audit Quality Indicators

3 Financial Reporting Surveillance Programme



# 10 early adopters of EAR in Singapore, following efforts by ISCA's AASC<sup>1</sup>

4-9 pages each  
(previously 1-2 pages)

2 – 6 KAMs each



## Common themes of KAMs

Value of  
long-lived  
assets



Property  
classification  
and valuation



Business  
Acquisitions



Revenue  
recognition



<sup>1</sup> ISCA's Auditing and Assurance Standards Committee develops Singapore's auditing and assurance standards.

Enhanced  
Auditor's  
Report

Audit  
Quality  
Indicators

Financial  
Reporting  
Surveillance  
Programme

1

2

3

# How should ACs approach KAMs?

1 Enhanced Auditor's Report

2 Audit Quality Indicators

3 Financial Reporting Surveillance Programme

Auditors' Year-end Report to ACs (Private sharing)

**KAMs**  
(Public disclosures)

Have good **K**nowledge of your company's audit matters

**A**GMs / **A**nalysts' briefing – prepare for more questions?

Disclosed what really **M**atter

**S**anity check  
– easy to understand?  
– no confidential information?

# Watch out for Other Information (OI)

## Examples of OI

Message from Chairman	Directors' Statement
Corporate Governance Report	Financial Review and Outlook



## Auditors' responsibilities grew for OI

### Pre-EAR



Read OI to ascertain consistency in financial statements

### EAR (from 15 Dec 2016)



Read OI received to assess whether OI is materially misstated



Report OI received (partially or in full) before date of auditors' report + whether OI received is materially misstated

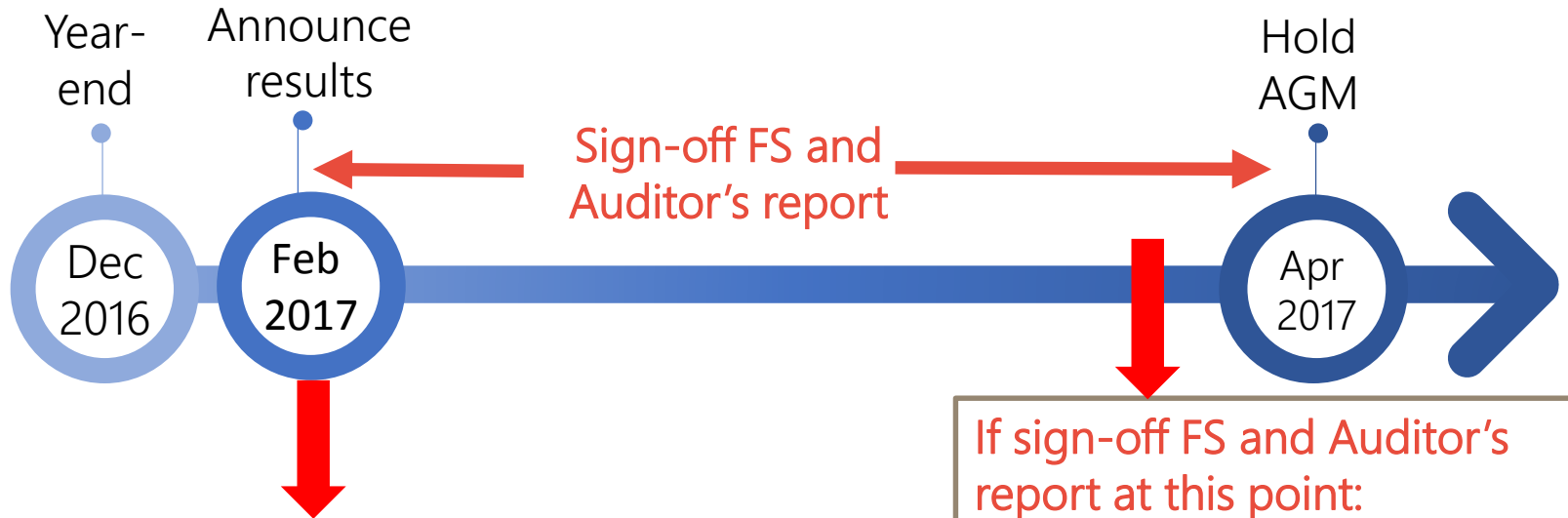
1 Enhanced Auditor's Report

2 Audit Quality Indicators

3 Financial Reporting Surveillance Programme

# If OI is not ready before audit report is signed off.

## Key milestones for Dec year-end preparers



If sign-off FS and Auditor's report at this point (i.e. Announce audited results):

If sign-off FS and Auditor's report at this point:

- OI is usually ready and hence, not an issue

*Consider if OI could be provided on time to auditors. If not,*

### Extract from EAR:

"The (OI) is expected to be made available to us after the date of this auditors' report....."

"When we read the (OI), if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors..."

Enhanced Auditor's Report

Audit Quality Indicators

Financial Reporting Surveillance Programme

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# Consider AC Commentary in Annual Report

## Background



Practised  
in the UK



Demand  
from  
investors<sup>1</sup>

100% Institutional  
Investors

95% Retail  
Investors

ACRA-MAS-SGX will  
be issuing letter to  
encourage adoption



Commentary serves  
to inform  
shareholders of AC's  
views on significant  
financial reporting  
matters

## Proposed content for AC commentary

For financial reporting matters, highlight:

- ➔ Audit Committee's due consideration
- ➔ Judgement calls made
- ➔ Bases for conclusion

<sup>1</sup> ACRA-ISCA-NUS Joint Study (published in August 2016): *Into the Minds of Investors – Investors' Views of Financial Reporting, Audit and Corporate Governance*.

Enhanced  
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Report


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## 2. Audit Quality Indicators (AQIs) Disclosure Framework

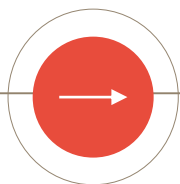
- Six targets set by ACRA

# Audit Quality Indicators – Our Journey

Enhanced Auditor's Report

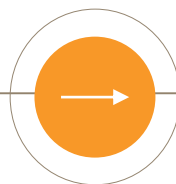
ACRA launched Framework of eight AQIs

Oct 2015



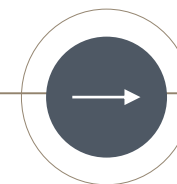
AQIs data are provided to ACs

Jan 2016



ACRA sets six targets for AQIs

Aug 2016



**New**

Audit Quality Indicators

Financial Reporting Surveillance Programme



Free download at  
[www.acra.gov.sg](http://www.acra.gov.sg)

Reasons for setting targets



Yardstick to evaluate



Spurs improvement

# Six targets on AQIs to kick-start the discussion on audit quality

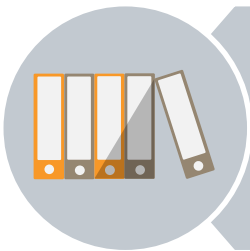
## Firm-Level Targets



**Staff retention rate** **75% to 80%**



**Staff per partner** **< 15** **Staff per manager** **< 5**



**No. of listed co audits with same FY-end** **5**

## Engagement-Level Targets



**Lead audit partner hours**  
**≥ 5%** for normal risk audit  
**≥ 10%** for high risk audit



**Concurring partner hours**  
**≥ 13 hours**



**Partner and mgr hours**  
**≥ 20%** of total hours

Enhanced Auditor's Report

Audit Quality Indicators

Financial Reporting Surveillance Programme

1

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# Illustration – How ACs could use the three targets on senior auditors' hours

- 1 Enhanced Auditor's Report
- 2 Audit Quality Indicators
- 3 Financial Reporting Surveillance Programme

Audit Hours	FY2016 Audit
Lead audit partner	79 (6%)
Total audit hours	1,300
Concurring partner	40
Total partners and managers hours	200
Partners and manager hours over total hours	15%

**Met target?**  
 ≥ 5% for normal risk audit  
 ≥ 10% for high risk audit



Enough time to consider all risk areas?

**Exceeded target (≥ 13)**



What were the risk areas that took a long time to resolve?

**Below target (≥ 20%)**



Discuss whether staff supervision is adequate?



### 3. Financial Reporting Surveillance Programme (FRSP)

- Revised FRSP policies from Apr 2017
- Areas of focus for 2016 FS



# FRSP 2<sup>nd</sup> Findings Report (Sept 2016)

Reviewed 50 sets of 2014 listed cos' FS under guidance of ISCA's FSRC<sup>1</sup>:

- 1. Good quality of financial reporting
- 2. Fewer cases with serious<sup>2</sup> breach
- 3. Prompt remediation by companies



Free download at [www.acra.gov.sg](http://www.acra.gov.sg)

Breaches  
**95%**  
remediated in  
2015 FS

**89%**  
of findings  
communicated before  
2015 FS  
were issued

Improvement points  
(remediation is not mandated)  
**63%**  
remediated in  
2015 FS

<sup>1</sup> ISCA's Financial Statements Review Committee comprises about 20 audit partners from various audit firms.  
<sup>2</sup> Calibration of serious findings is decided by ACRA, having regarded 2<sup>nd</sup> expert opinion from ACRA's Financial Reporting Technical Advisory Panel, comprising senior audit partners, directors, CFOs, FCs and academia.

Enhanced Auditor's Report  
1

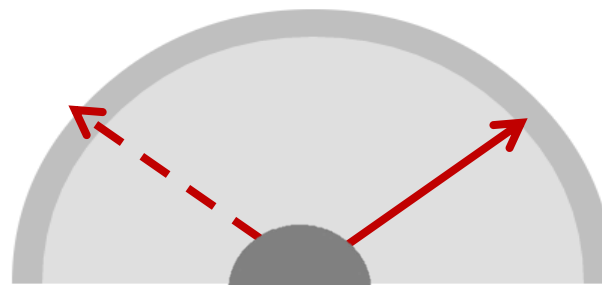
Audit Quality Indicators  
2

Financial Reporting Surveillance Programme  
3

# Observation from review of FRSP's policies

Enhanced Auditor's Report  
1

Directors unaware and not taking responsibility



Directors aware and taking responsibility

Audit Quality Indicators  
2

**2013**  
Survey of FS Preparers

**2014**  
Audit Adjustments Study

**2014**  
Expanded FRSP Scope

**2016**  
Policy Review of FRSP

Financial Reporting Surveillance Programme  
3

**50%** of 400 preparers believed that the **responsibility for FS preparation lies with auditors**

Feedback from Directors' Focus Groups:

- FRSP has value and should continue
- Should continue to address enquiry to Boards, not CFOs
- Even if CEOs/CFOs are made legally responsible under the law, Directors must be jointly accountable



# Revised FRSP policies effective 1 Apr 2017

1 Enhanced Auditor's Report

**Investor Protection**

**Collaboration**

Restatement first



Timely restatements

2 Audit Quality Indicators

**Streamlined Processes**

Streamlined written enquiries

Where practicable, outcome indicated at enquiry stage

Hear more views

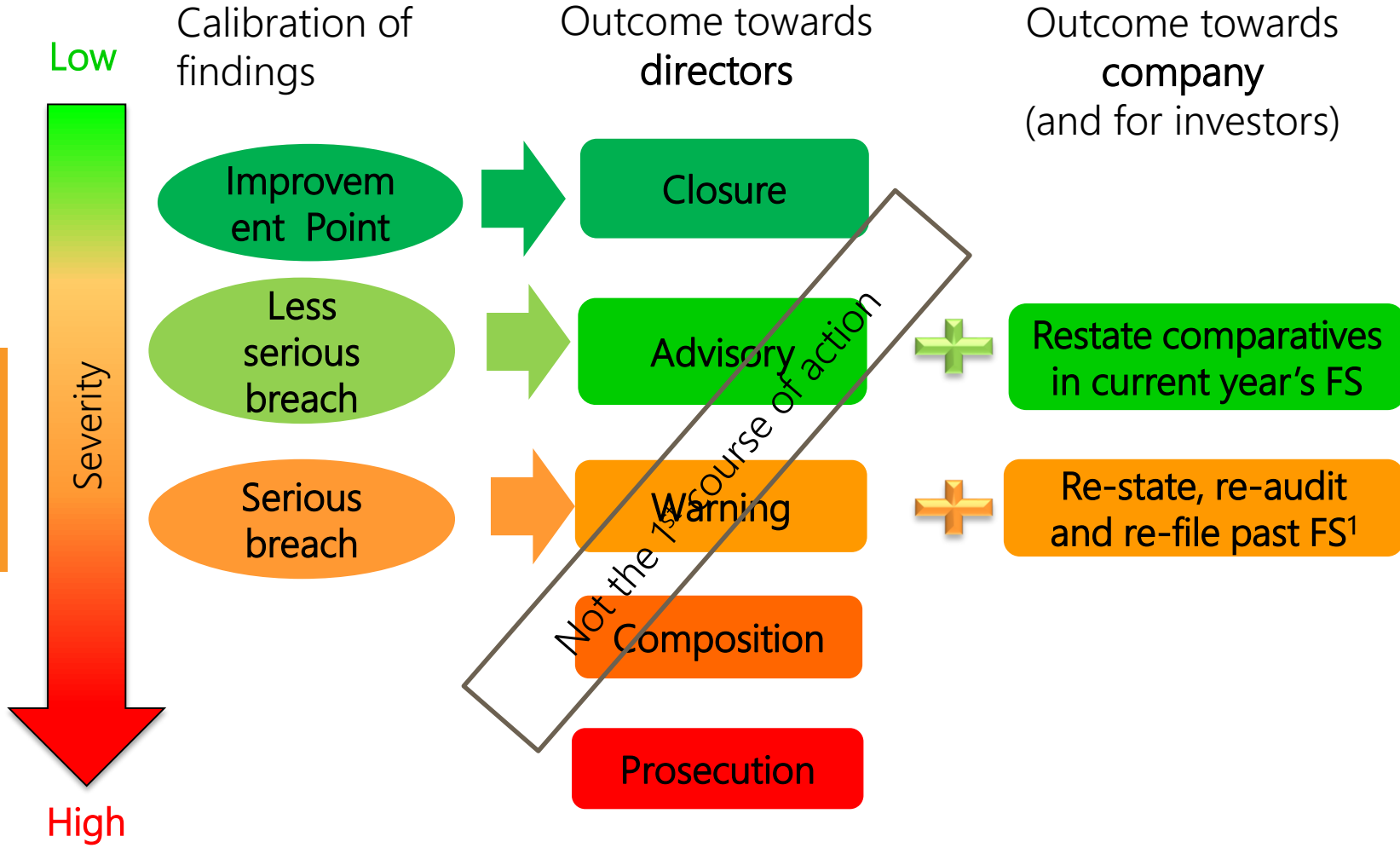
3 Financial Reporting Surveillance Programme

# Gearing outcome towards timely restatements

## – Working together to inform investors (1)

### FRSP policies before 1 Apr 2017

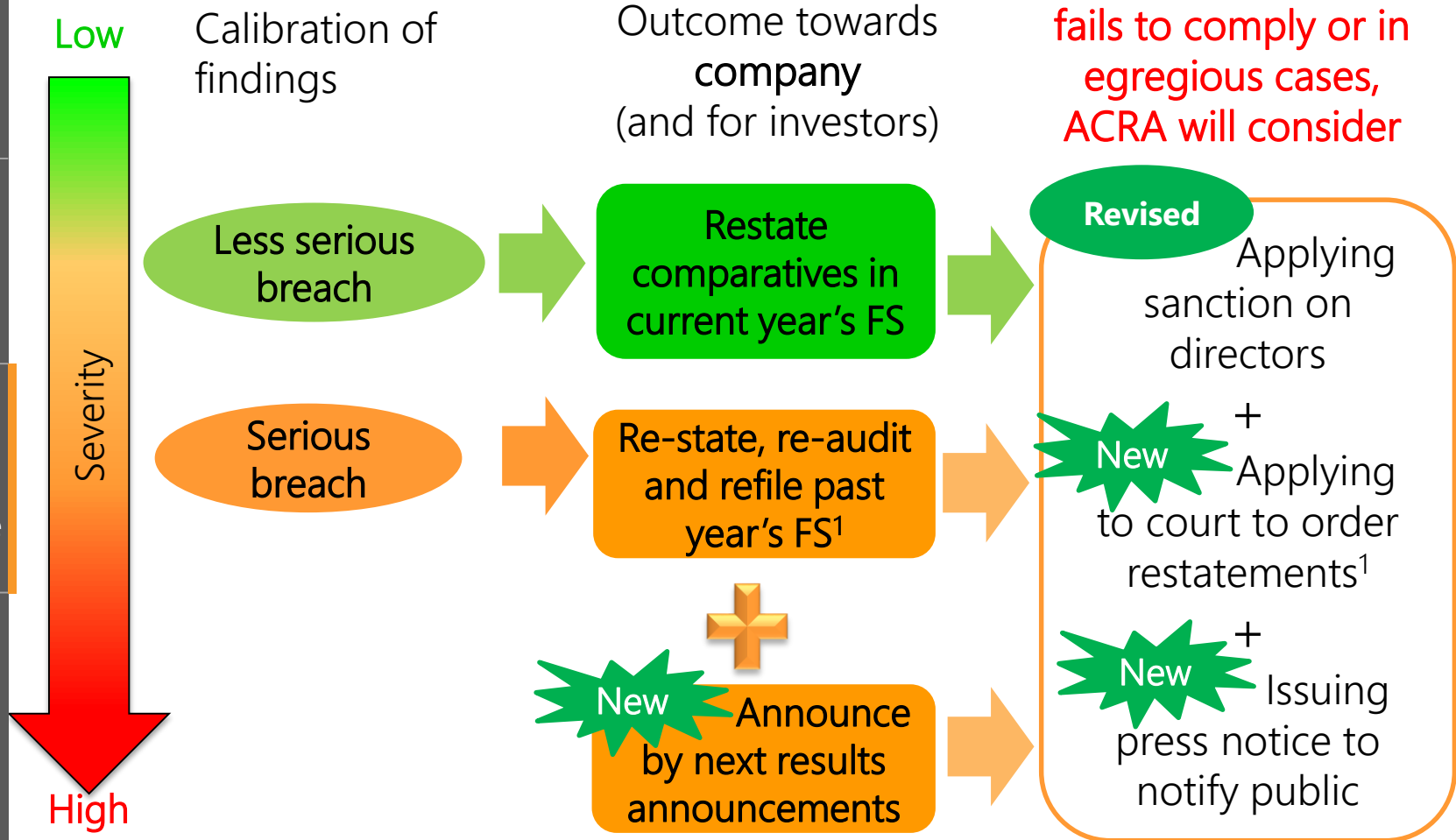
- 1 Enhanced Auditor's Report
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# Gearing outcome towards timely restatements – Working together to inform investors (2)

## Revised FRSP policies

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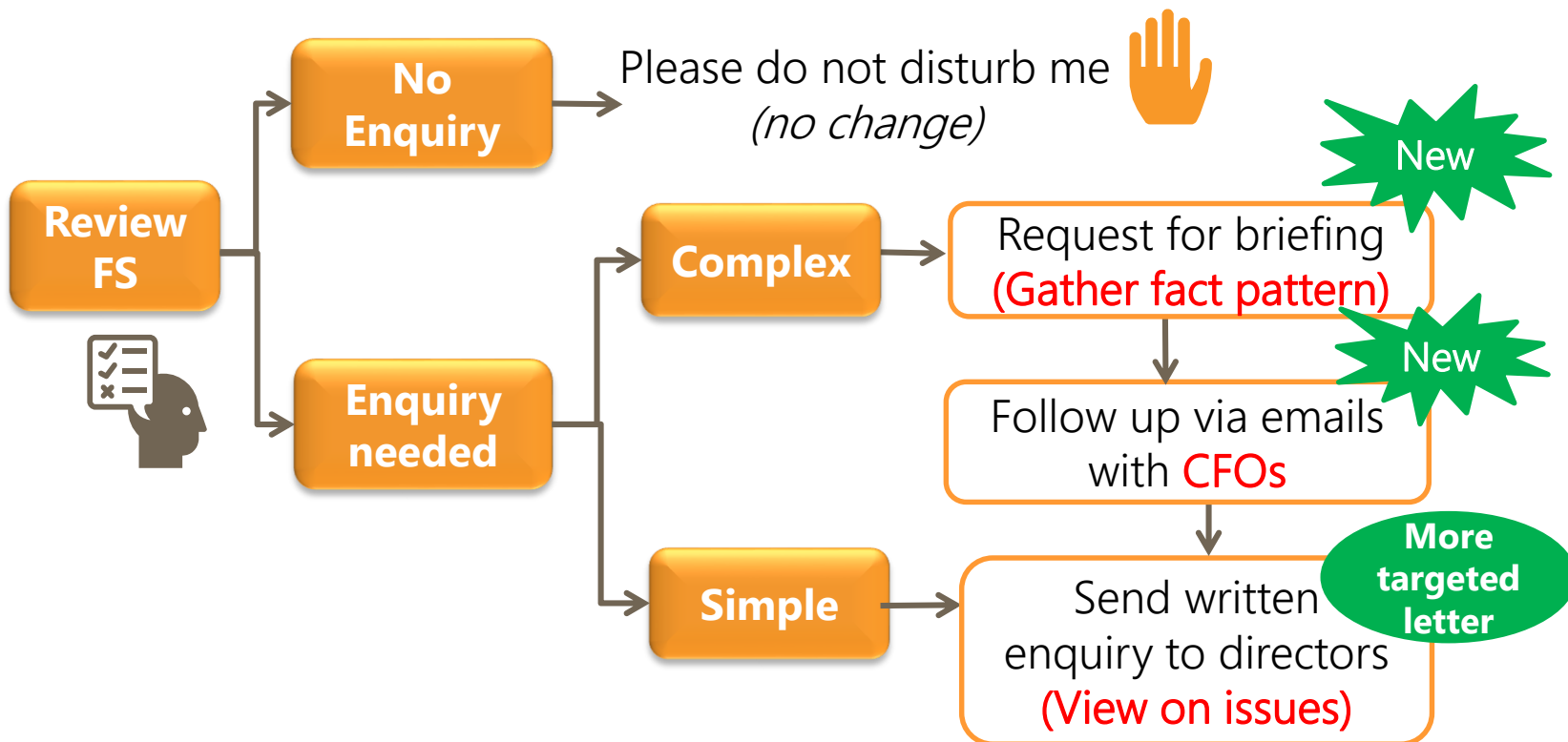


<sup>1</sup> The Bill on these provisions was passed in 2014. Subsidiary legislations are targeted to be passed in 2017.

# Streamlined written enquiries with Outcome indicated in advance<sup>1</sup>

## Revised Policies

**Fact pattern:** Engage **company reps<sup>2</sup>** via meeting or **CFOs** via e-mail  
Views on issues: Engage directors via written enquiry



1 Where practicable to estimate, remedial action (e.g. add/improve disclosures) will be indicated in enquiry letter.  
 2 Board to decide on composition of company representatives (e.g. CFO only, or with AC chair).

Enhanced Auditor's Report  
 1  
 Audit Quality Indicators  
 2  
 Financial Reporting Surveillance Programme  
 3



# Hearing more views before concluding on serious cases

1 Enhanced Auditor's Report

2 Audit Quality Indicators

3 Financial Reporting Surveillance Programme



For selected serious breaches (e.g. judgemental cases),

**ACRA will seek views**

from the other stakeholders (e.g. auditors, valuers etc)



For cases with serious breach(es), ACRA will conduct

**closing meeting with directors**

before sending the findings letter.

**Findings**

- Letter will exclude bases for conclusion. To list only breach and action required.
- **Require reporting to ACRA** on remedial actions taken within a prescribed timeline.

**More targeted letter**

**New**

# Next steps



Outreach to CFOs on  
FRSP's Operating Procedures



Issuance of Practice Direction &  
FRSP's Operating Procedures



Enhanced  
Auditor's  
Report

1

Audit  
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Financial  
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# FRSP review focus for 2016 FS, developed with inputs from ISCA's FSRC

- 1 Enhanced Auditor's Report
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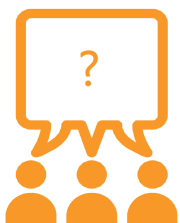
## Ordinary Business



Impairment test



Cash flow classification



Going concern



Released in December 2016 to guide directors

## Tailored communications

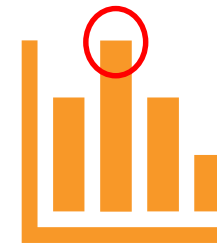


Judgement and estimate



New standards

## New Transactions



One-off gain



Business acquisitions



Control over investees

# ACRA

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REGULATORY AUTHORITY

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Singapore 079903

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