

**ACRA-SGX-SID**  
**AUDIT COMMITTEE SEMINAR 2019**  
*[The Audit Committee in the New Normal]*

**16 January 2019**  
**Marina Mandarin Hotel**

# ACRA Regulatory Updates

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*Divisional Director, Financial Reporting Division,  
ACRA*

# Agenda

1. Tips to ACs when dealing with:
  - modified audit reports
  - new business arrangements
2. New legislation effective 20 Apr 2018
  - voluntary revision of defective accounts

# Modified audit reports

# Director's duties for financial reporting

Shareholders  
rely on financial  
statements



s201 of Companies Act - Directors must table financial statements (FS) that are:

- true and fair, and
- comply with the accounting standards



FS should receive  
"clean" audit  
report

## FS of SG-listed companies

	FY2016	FY2017
Clean opinion	537	516
<b>Modified opinion</b>	<b>40 (7%)</b>	<b>44 (8%)</b>
Total companies	577	560

### Areas qualified by auditors

- **Opening balance only: 8**  
(FY2016: 2)
- Going concern only: 6  
(FY2016: 2)
- Others: 30 **(23 may have  
accounting issues)**



ACs to enquire  
before changing  
auditors



ACs could help  
resolve some issues.  
See next slides

# Case 1 - Changes in views



Pre-tax losses for 3 consecutive years + <\$40m average daily market cap in the past 6 months => placed under "watch list"

## Qualified Auditor's Report

"The Group's PPE of \$20 million, **included equipment not in use of about \$2 million**. We were unable to obtain sufficient appropriate audit evidence on key assumptions used"

## Notes to the FS

"The management is confident that ... will be able to **fully utilise** the PPE including those currently not in use."

## Restated the comparative

by impairing PPE of \$2 million  
".. The plant and equipment was not in use since 2016 **and should have been impaired in 2016...**"

## Current year impairment

of PPE of \$11 million

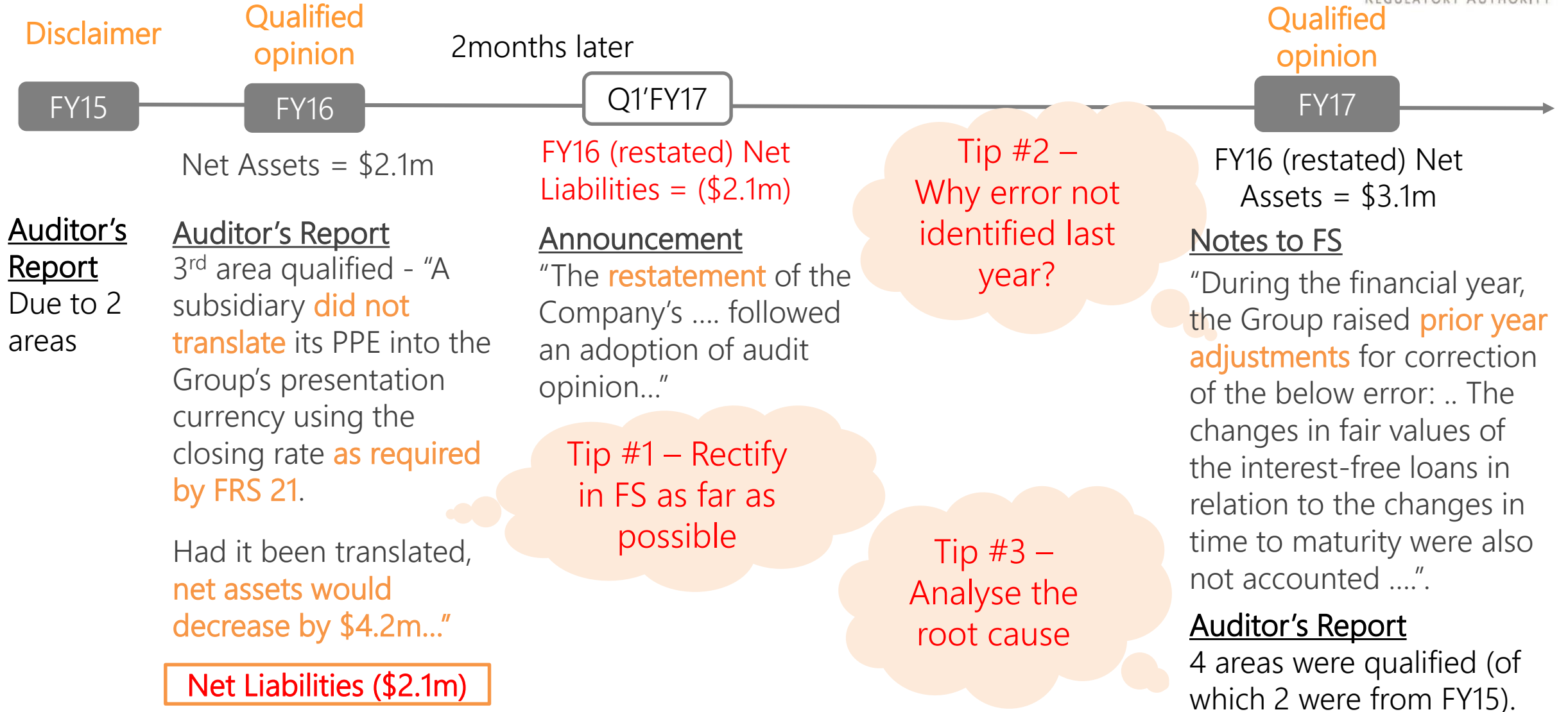
Key assumption used:

- Gross margin: **12%** (FY16: 20%)

Tip #1 - Critically assess before accepting changes in views

Tip #2 - Evaluate if impairment should be recognised in FY16?

# Case 2 - Rectify timely





# New business arrangements



# Case 3 - Evidence on change in use (1)



## Fact Pattern

Type of Property	Business model	FS Classification	Measurement
Residential only and residential-commercial developments	Sell 	Development Property	Cost
Industrial properties	Rent 	Investment Property (IP)	Fair value
Industrial properties	Own use	Property, Plant and Equipment	Cost

## Accounting Requirements

(Para 57 of SFRS 40)

- An entity shall transfer a property to, or from, IP **when, and only when**, there is a change in use.
- A change in use occurs when the property meets, or ceases to meet, the definition of IP **and there is evidence of the change in use**.
- In isolation, **a change in management's intention** for the use of the property does **NOT provide** evidence of a change in use.

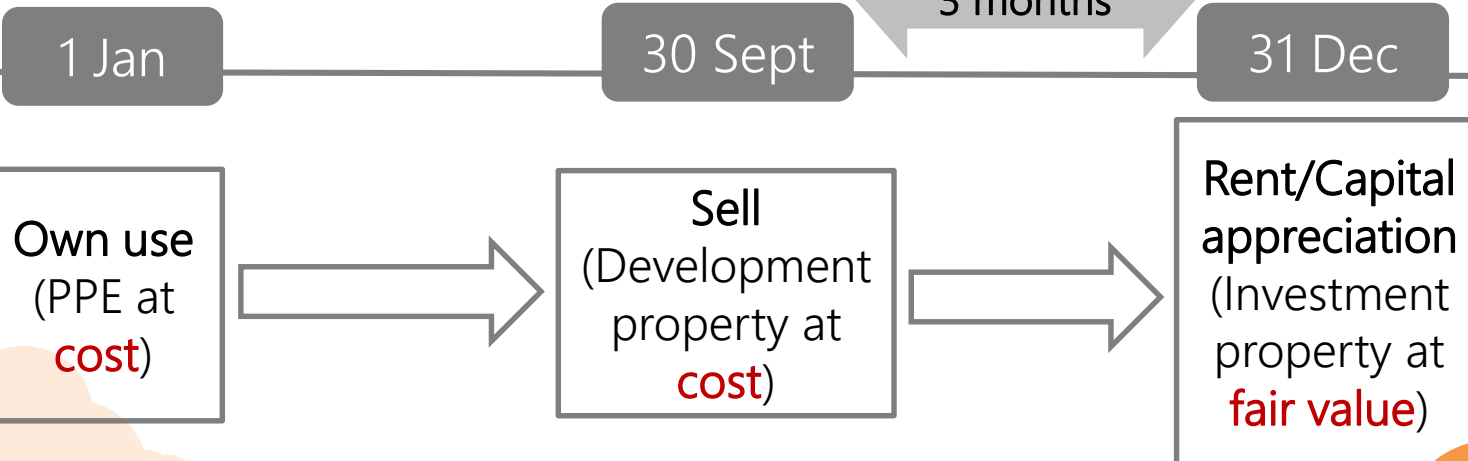
# Case 3 - Evidence on change in use (2)

## Fact Pattern



8-storey industrial building

Property under construction



Tip #1 – Ask CFO for the alternative accounting treatment

Had it been transferred directly from PPE to IP, fair value gain taken to EQUITY

Fair Value Gain (~50% of PBT)

Tip #2 – Be comfortable with reasons for multiple transfers in a short period of time

# Case 3 - Evidence on change in use (3)



## Company's evidence on change in use

- Management meeting in Sept attended by executive directors, the CFO and the Finance Manager:
  - (i) One director suggested selling the property under construction for better cash flow management.
  - (ii) The management decided that if the sale was unsuccessful in 3 months, the property will be held for rental income.
- 2 emails with sale agents provided by management as evidence on the efforts to sell:
  - (i) *"...Is it for sale or lease? If sale, what is the price and if leasing what is the rate?"*
  - (ii) *"...We can consider to sell...can your buyer sign the NDA before we release information e.g. valuation report etc..."*

Tip #3 – Distinguish between change in intention and change in use

Tip #4 – Assess evidence on the change in use (e.g. under construction, able to sell in 3 months)?

# Voluntary Revision of Defective FS

# Voluntary Revision of Defective FS (1)

20 Apr '18

Issued Regulations to operationalise s202A and s202B of Companies Act

Purpose: Allow diligent directors to revise the company's FS on their own<sup>1</sup>

Can revise in respect of any financial year, but

revisions are confined to non-compliances with Companies Act

No need to deal with subsequent events or changes in Accounting Standards

New directors' statement and amended auditor's report (illustrated in the Guidance)

No need to call for AGM/EGM to table revised FS (table at **the next** AGM/EGM), but

must circulate to members and file with ACRA within 30 days after revision

20 Apr '18

Issued Guidance for Companies<sup>2</sup> (available at [www.acra.gov.sg](http://www.acra.gov.sg))

<sup>1</sup> Intent of the Steering Committee appointed by MOF to review the Companies Act then.

<sup>2</sup> Consulted with ISCA's Financial Statements Review Committee and ISCA's Auditing and Assurance Standards Committee.

# Voluntary Revision of Defective FS (2)

Assume that directors authorised FY2016 FS on 31 Mar 2017 and revised it on 20 Nov 2018.  
Extract of new Directors' Statement:

This new directors' statement replaces the original directors' statement signed on 31 March 2017. This new directors' statement and the revised Financial Statements have been prepared in accordance with Companies (Revision of Defective Financial Statements, or Consolidated Financial Statements or Balance-Sheet) Regulations 2018. [Regulations 6(2)(b) and (c)]

The bases for revisions are explained in Note 2 to the revised financial statements. This new directors' statement is taken as having been prepared on the date of the original directors' statement and accordingly, does not consider those events occurring between 1 April 2017 and 20 November 2018. [Regulation 6(2)(d)]

No need to update for subsequent events

# Voluntary Revision of Defective FS (3)

In the opinion of the directors,

New opinion by directors in office at date of revision

- (a) the revised balance sheet of the Company and the revised consolidated financial statements of the Group are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2016 and the financial performance, changes in equity and cash flows of the Group for the financial year covered by the original consolidated financial statements [Regulation 4(2)(c)(ii)(A)]; and
- (b) as at the date of the original directors' statement (31 March 2017), there were reasonable grounds to believe that the Company would be able to pay its debts as and when they fell due. [Regulation 4(2)(c)(ii)(B)]

Opinion of directors in office at date of original FS

[Name of Director 1]

Director [Regulation 4(2)(c)(i)]

20 November 2018 [Regulation 6(2)(a)]

Date of revision

[Name of Director 3]

Director [Regulation 4(2)(c)(i)]



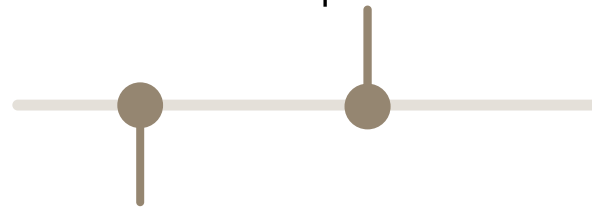
# Voluntary Revision of Defective FS (4)

Made adjustment to  
FY2016 comparatives  
in FY2017 FS



**Should the Co voluntarily revise its FY2016 FS  
under section 202A as well?**

30 Apr 2018



1 Feb 2018

Noted an error  
in FY2016 FS  
when  
preparing  
FY2017 FS

As a minimum, directors to consider the following factors, when deciding whether to voluntarily revise its FY2016 FS:

- (a) nature and materiality of errors (both quantitatively and qualitatively) in FY2016 FS
- (b) level of public interest in FY2016 FS
- (c) likelihood of users relying on the defective FY2016 FS that is available in the public domain (SGXNET and ACRA's register)



Thank You!