Audit And Risk Committee Seminar 2025

Elevating Shareholder Value With Good Governance

22 January 2025

Opening Address

Mrs Chia-Tern Huey Min

Chief Executive of Accounting and Corporate Regulatory Authority (ACRA)

ACRA regulatory updates

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Agenda

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FRSP Highlights

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Overview of the FRSP

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Selection of financial statements

- ACRA selects financial statements (FS) of Singapore-incorporated companies for review

Review Process

- Review selected FS for compliance with accounting standards
- Focus on areas impacting key financial measures used by investors

Engagement with Companies

- Send enquiry letters to Companies
- Companies provide explanations and additional information on their accounting treatments

Regulatory Outcomes

- Range from no further action to requiring restatements of FS
- Serious cases may result in warning letters, compositions, or prosecution against directors

Sharing of findings and insights

- Issuance of practice guidances and FRSP reports
- Highlighting areas of review focus

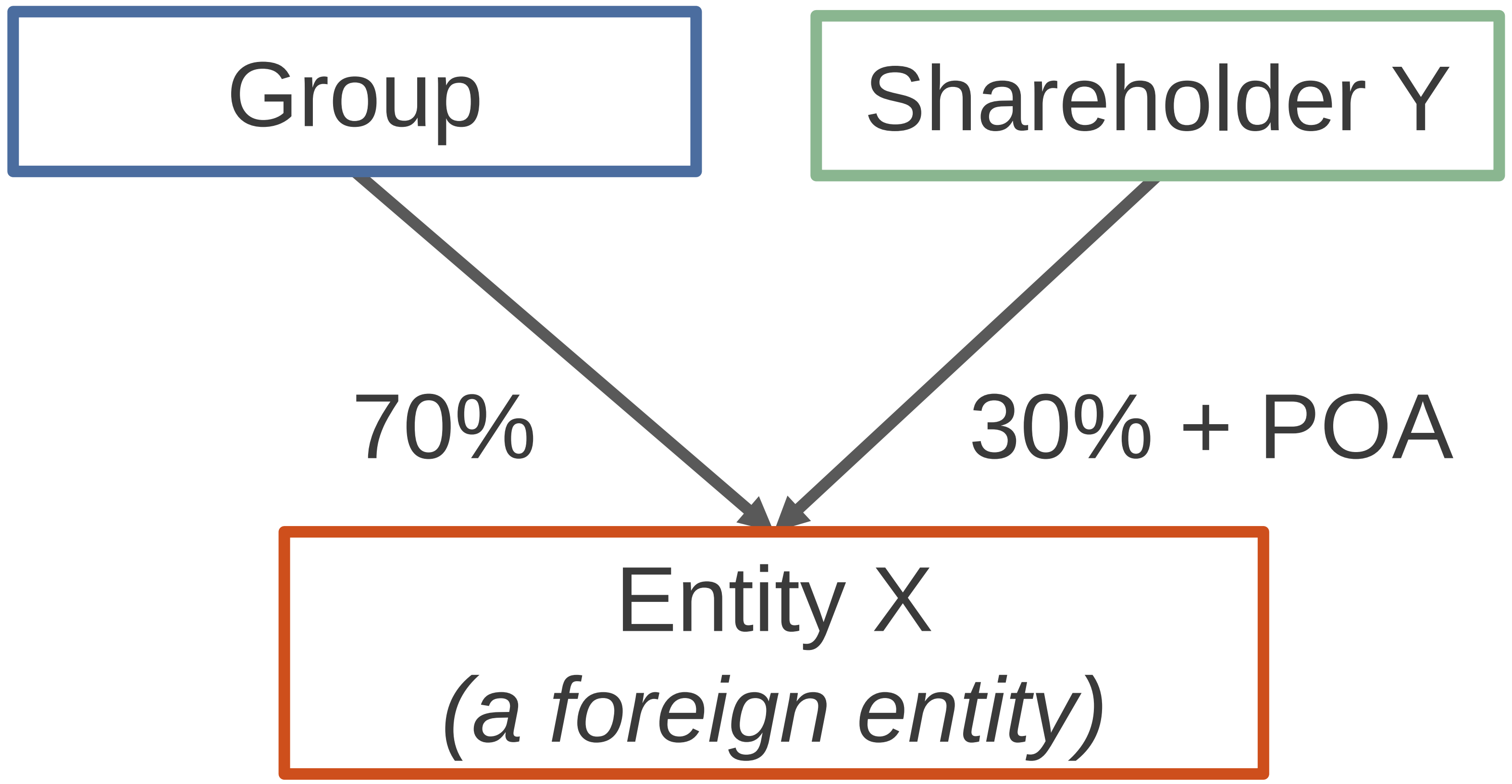
Common Findings

Presentation in FS	• Omission of material disclosures • Classification errors in income statement and balance sheet
Consolidation/Equity accounting	• Inappropriate assessment of influence and control • Deficiencies in accounting for business combination **Case 1**
Presentation in cash flow statement	• Inclusion of non-cash items • Cash flow classified in the wrong categories
Impairment of assets	• Errors in calculating recoverable amount • Insufficient disclosures in FS **Case 2**
Financial instruments	• Recognition and measurement of complex instruments • Inadequate expected credit loss (ECL) assessment for financial assets

Case Studies

Case Study 1

Fact Patterns



<u>FY20X1</u>

- The Group acquired a 70% stake in Entity X, a foreign company, from Shareholder Y.
- Shareholder Y retained 30% and was granted a power of attorney (POA) by the Group to run Entity X.
- Entity X relied on the Group for cash flow support.

<u>FY20X5</u>

- Shareholder Y requested more funding.
- The Group requested but was unable to obtain Entity X's financial statements.
- The Group decided to withhold further funding and subsequently, Shareholder Y became unresponsive.
- Due to this development, the Group concluded that it had lost control over Entity X and deconsolidated Entity X as a subsidiary, recognising a loss on derecognition.

Did the Group lose control over Entity X in FY20X5?

Case Study 1

Directors' explanation:

- Shareholder Y became uncontactable despite numerous attempts. The Group lost access to Entity X's management accounts and financial records.
- The Group ceased funding. Without the funding, Entity X met with financial difficulties. It faced potential bankruptcy and liquidation, which would likely result in court-appointed liquidation and consequent loss of control.
- Given the lack of management representation in Entity X, the Group perceived no benefit in maintaining control over Entity X.

Other observations:

- The POA had a one-year expiry duration, and the Group retained power to revoke it at any time.
- The Group did not attempt to take any further action after losing contact with Shareholder Y.

ACRA's assessment and conclusion:

- SFRS(I) 10 *Consolidated Financial Statements*
  - Para 6 on the definition of control:
    - Exposure/rights to variable returns
    - Ability to affect those returns through power over investee
  - Para 20: Consolidation begins from the date control is obtained and ceases when control is lost.
- The Group's 70% equity stake remained unchanged in FY20X5.
- The Group's power to revoke the POA at any time indicated ongoing control, as it meant that the Group could appoint another representative anytime.
- No significant changes occurred between acquisition (FY20X1) and FY20X5 to justify loss of control.
- The Group continued to have control over Entity X and hence, should not have deconsolidated it.

Case Study 1

Indicators that warrant greater scrutiny

- Changes in control or group structure
- Claims of loss of control, especially when ownership remains unchanged
- Inconsistencies between legal ownership and operational control

Considerations

- Evaluate all aspects of control as defined by SFRS(I) 10
- Assess management's efforts to maintain control or regain control in challenging situation
- Regularly review control assessment
- Provide clear, comprehensive disclosures on significant judgements in determining control

Case Study 2

Fact Patterns

Acquisition date

- The Group acquired a forestry company in FY20X1 that held a 15-year forestry concession license.
- The goodwill recognised was 20% of the Group's total assets.
- The acquired company had 5-year loss history and was in a capital deficiency position.
- The Group lacked prior forestry sector experience.
- 1st valuation expert engaged for initial valuation of trees and license for acquisition date accounting.

Post-acquisition

- Internal forestry management team handled projections and impairment assessments.
- No goodwill impairment in FY20X1 and FY20X2 despite continued losses and unmet planting targets.

Case Study 2

What we observed when we reviewed the Group's value-in-use (VIU) computation:

- Internal assumptions more aggressive than 1st expert's view
- Unchanged discount rate despite more aggressive assumptions
- A 0.8% higher discount rate would result in impairment

In the computation, only 200,000 hectares was deemed plantable, 60% unsuitable

However, in the management commentary in the Annual Report, it was stated that the concession covered 500,000 hectares, with only 10,000 hectares planted.

Poll

The management commentary stated that the concession covered 500,000 hectares with 10,000 hectares planted. However, the internal VIU computation used 200,000 hectares as plantable area, with 60% deemed unsuitable.

Is there a need to disclose the assumption about the plantable area in the financial statements?

A. No disclosure is needed.

B. Yes, this assumption should be disclosed.

C. It depends.

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Case Study 2

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Directors' explanation:

- Forestry management team had sector expertise despite the Group's inexperience.
- FY20X1 and FY20X2 planting targets missed due to excessive rainfall.
- FY20X2 VIU calculation included higher production yields based on a 2nd external expert's advice.
- Projected yields within academic report range and endorsed by 3rd external expert.
- Plantable area not disclosed in FS as not explicitly required by accounting standards.
- Sensitivity analysis of discount rate omitted due to no recorded impairment.

ACRA's assessment and conclusion:

- SFRS(I) 1-36 *Impairment of Assets*
  - Para 33: VIU cash flow (CF) projections must be based on reasonable and supportable assumptions.
  - Para 134(d): disclosure of key assumptions and their determination
- SFRS(I) 1-1 *Presentation of Financial Statements*
  - Para 125: disclosure of key assumptions and their determination
  - Para 129: disclose sensitivity analysis and reasons for sensitivity
- VIU assumptions were not reasonable or supportable:
  - Did not reflect associated risks and uncertainties
  - Academic reports irrelevant due to different soil conditions
  - 3rd expert did not consider SFRS(I) requirements, unlike 1st expert
- Sensitivity analysis for discount rate should be disclosed:
  - Small headroom where 0.8% increase would cause material impairment
- Critical assumption of plantable area omitted from disclosures:
  - Misrepresented untapped land potential as 60% of land cited in management commentary was unplantable

Case Study 2

Indicators that warrant greater scrutiny

- Discrepancies between management commentary and FS
- Unchanged discount rates despite increased risks or uncertainties
- Marginal changes in discount rates leading to significant impairment
- Change from external to internal valuations for significant assets

Considerations

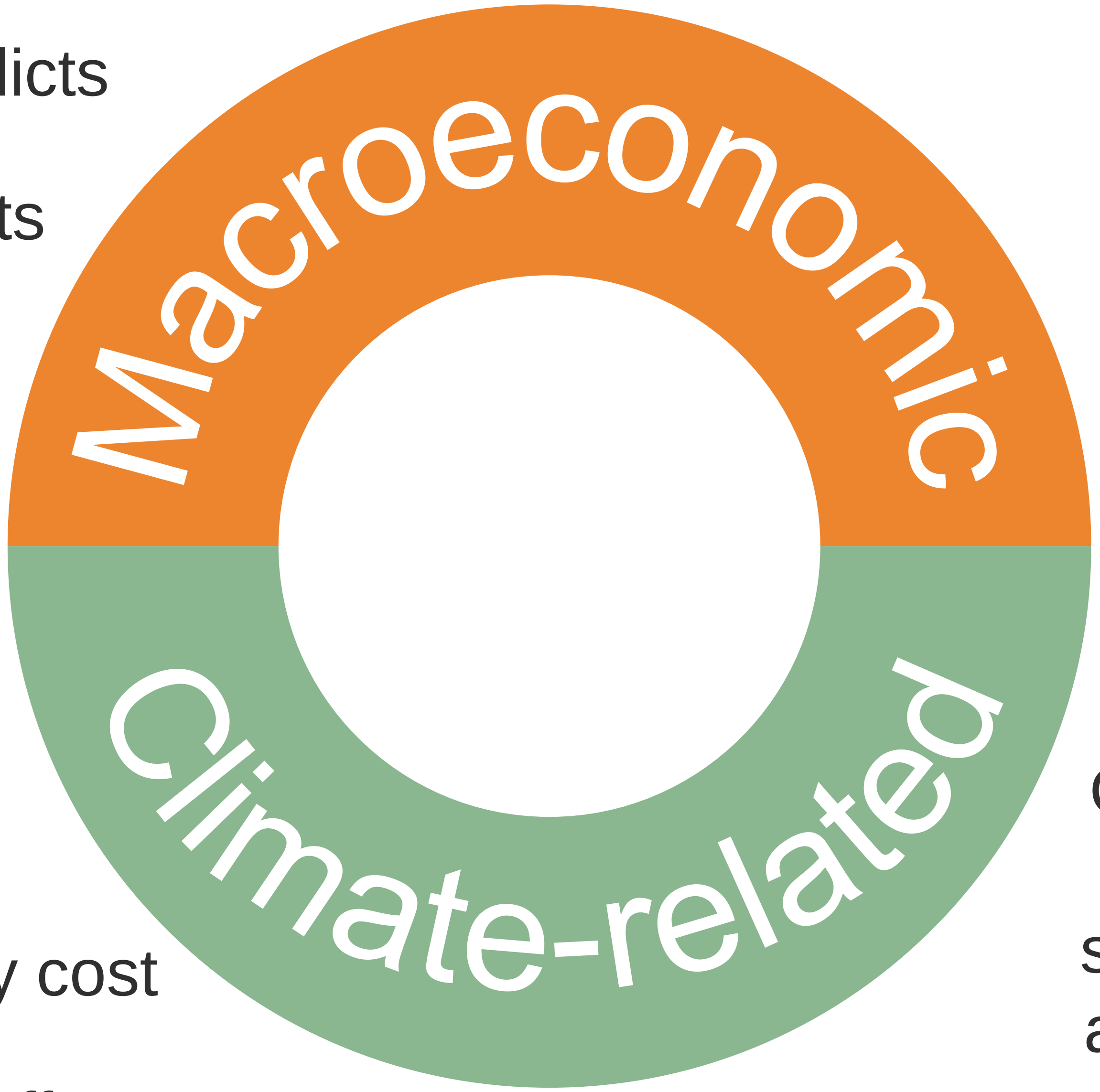
- Check for consistency of information across different parts of the annual report and between reporting periods, including business knowledge
- Ask how discount rates have been adjusted for risk, especially for new sectors or when macroeconomic environment changes
- Consider engaging appropriate experts for complex valuations or specialised assets
- Look out for disclosures on key assumptions and associated sensitivity analysis

Looking Ahead

Areas of Review Focus

KEY RISKS

- Global economic slowdown
- Geopolitical conflicts
- Supply constraints
- Rising costs
- Inflation



- Carbon tax
- Increased energy cost
- Climate change efforts

REVIEW FOCUS

1. Expected credit loss
2. Impairment
3. Fair value measurement
4. Business acquisitions

1. Connectivity between sustainability and financial reporting
2. Accounting and disclosure of renewable energy projects
3. Impact of climate-related risks on financial statements, especially impairment on non-financial assets

SFRS(I) 18 *Presentation and Disclosure in Financial Statements*

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SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL)

SFRS(I) 18
Presentation and Disclosure in Financial Statements

The Standard applies for annual reporting periods beginning on or after 1 January 2027.
Earlier application is permitted.

1
Replaces SFRS(I) 1-1 *Presentation of Financial Statements*

2
Changes in income statement presentation. Income and expenses to be classified into operating, investing and financing category

3
Two new subtotals to be presented in income statement - operating profit & profit before financing and income tax

4
New requirements to disclose Management-defined Performance Measures (MPMs)

5
Applied retrospectively, prior periods will need to be restated to conform to the new standard

6
Effective from 1 January 2027, with early application permitted.
Applies to interim financial reporting

SFRS(I) 19 *Subsidiaries without Public Accountability: Disclosures*

1

Voluntary standard that eligible subsidiaries can choose to apply

2

Applies to subsidiaries without public accountability whose ultimate or intermediate parent produces publicly available consolidated financial statements compliant with SFRS(I) or IFRS.

3

Apply recognition, measurement and presentation requirements of other SFRS(I)

4

Provides a reduced set of disclosures compared to full SFRS(I)

5

Effective from 1 January 2027, with early application permitted.

SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL)

SFRS(I) 19
Subsidiaries without Public Accountability: Disclosures

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Call for action

ACRA — Accounting and Corporate Regulatory Authority

SID — Singapore Institute of Directors

Practice Guidance

https://go.gov.sg/frpracticeguidance2024

Survey on Audit Committees' experience with Audit Quality Indicators (AQIs)

- **AQIs:** a disclosure framework that help ACs assess if a public accounting entity is able to provide high quality audits
- **Survey objective:** to draw valuable insights on ACs' experience with AQIs
- **Deadline:** 31 Jan 2025

https://go.gov.sg/acsurvey2025

Thank You!