



ACRA 2018 REGULATORY UPDATE

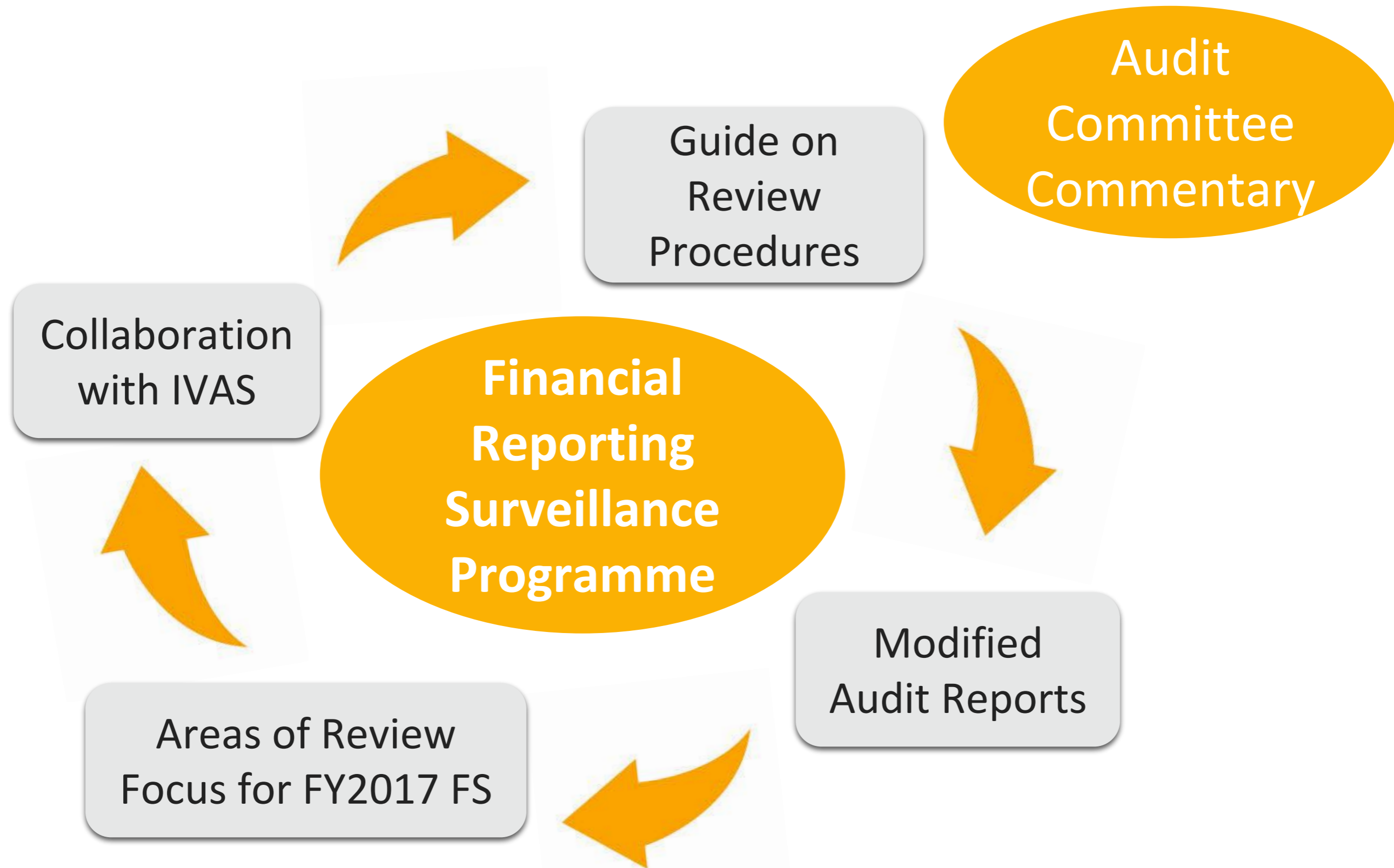
Presented by
Ms Bong Yap Kim, Divisional Director, Financial Reporting, ACRA

Organised by



AGENDA

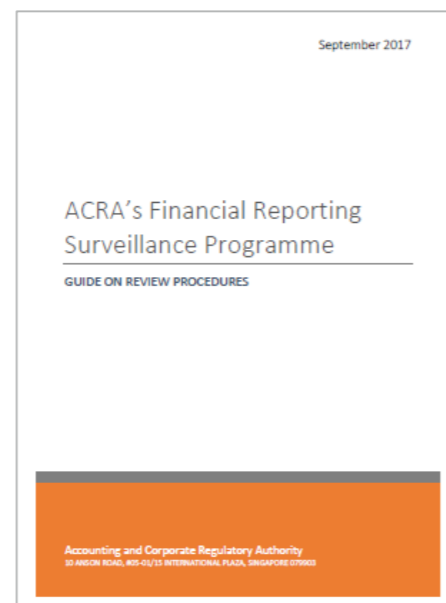
- IMPROVING REPORTING QUALITY



FRSP: Guide on Review Procedures

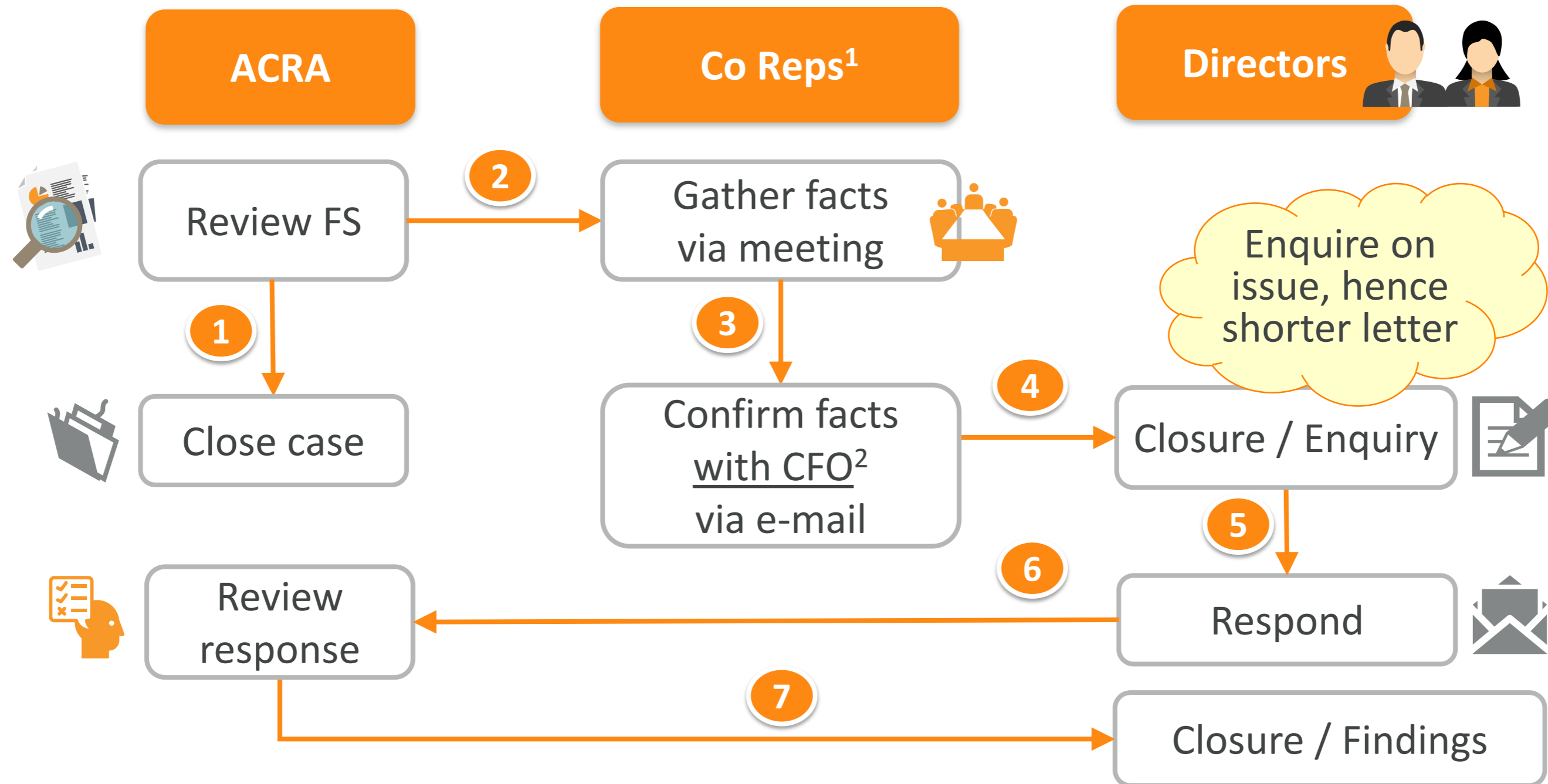
Recap on key outcomes

- 1 Streamlined enquiry process and letter
- 2 Timely rectification of non-compliance with accounting standards
- 3 For complex cases, may seek views from other stakeholders

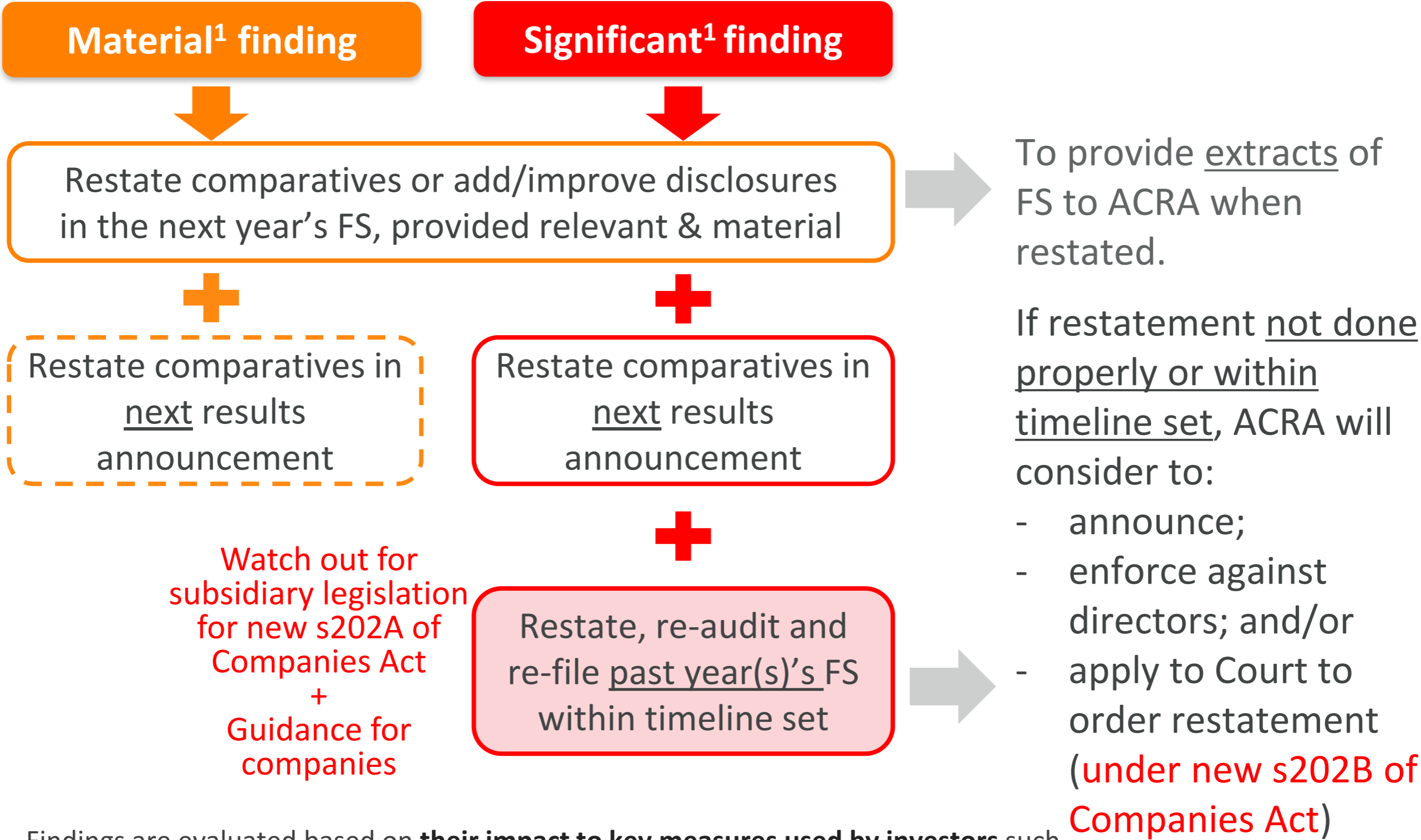


Issued Guide on Review Procedures on 2 Jan 2018.

Download at www.acra.gov.sg



- 1 ACRA encourages directors to assign representatives who have a good knowledge of matters such as CFO, and who provide oversight such as CEO and AC chair.
- 2 Correspondences are made with CFO, copying CEO, AC chair and any other person advised by the company.



1 Findings are evaluated based on **their impact to key measures used by investors** such as revenue, profits and cash flows, based on both quantitative and qualitative factors.

FRSP: Modified Audit Reports

**Modified
Audit Reports**

FY2016 financial statements
- Desktop analysis on modified auditor's reports

Out of 584 Singapore-incorporated listed companies @ 31 Dec 2016:

91% Clean audit opinion

3% Emphasis of matters



6% **Modified auditor's reports**
(35 sets of FS received qualified, adverse or disclaimer audit opinions)



Investors need reliable FS
for decision making



**Modified
Audit Reports**

Desktop analysis of 35 modified auditor's reports
- Areas qualified in FY2016

Qualified area may not always be non-compliance with accounting standards

| Areas qualified | No of occurrence | % |
|---------------------------------------|------------------|-----|
| Impairment of assets | 34 | 36% |
| Going concern | 19 | 20% |
| Audit of opening balance | 11 | 12% |
| Consolidation or equity accounting | 9 | 9% |
| On-going investigation or legal cases | 8 | 8% |
| Others | 14 | 15% |
| Total | 95 | |

Whose view should I take?



Investor

Impact to future results announced (unaudited)?



Investor

Where can I get reliable fin figures?



Investor



How can Audit Committee help to bridge the gap?

**Modified
Audit Reports**

How can Audit Committee help to bridge the gap? Example 1 – Impairment of asset

Disclosure in FS:

Management carried out a review of the recoverable amount. The key assumptions for the value-in-use calculations are those regarding the sales volume, gross profit margin and discount rates.....

Management believes that no reasonably possible changes in any of the key assumptions would cause the carrying amounts to materially exceed its recoverable amounts.

Extracts from Auditor's Report:

Management believes no impairment is necessary.....

Based on the information available to us, we are unable to obtain sufficient appropriate audit evidence to satisfy ourselves on the reasonableness of the key assumptions and inputs used in the determination of the recoverable amounts.

Whose view
should
I take?



Actions by AC:

- To form a view
- If agrees with auditors, to put through the audit adjustment
- If agrees with mgt, to disclose rationale in AC commentary

Disclosure by company in the FS:

The joint venture's financial year-end, 31 December, is **not co-terminus** with the Group's financial year-end of 31 March.

Extracts from Auditor's Report:

Had the Group equity accounted ... net financial impact would have been an increase in share of loss of joint venture and a corresponding **increase in total comprehensive loss of \$200,309, which is material to the Group's financial statements for the financial year ended 31 March 2016.**

Impact to future results announcement (unaudited)?



Actions by AC:

- Ascertain management has a plan and can resolve the issue soon?
- To describe work done in AC commentary
- In the interim, ensure impact is disclosed in future announcements

FRSP: Review focus for 2017 financial statements

Effective communication

- Impact from new accounting standards and reporting framework



- Judgements and estimates

Higher risk of misstatements



- Impairment testing
- Going concern



- One-off gain
- Consolidation/ equity accounting
- Business acquisitions



- Cash flow classification



Issued Practice Guidance on 2 Jan 2018.

Download at www.acra.gov.sg

**Review Focus
for FY2017 FS**

Effective communication - New accounting standards and framework




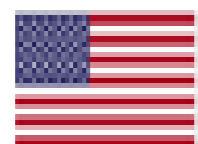


To help investors understand, more disclosures are necessary:

- **Effective 1 Jan 2018** (i.e. Revenue, Financial Instruments and SFRS(I)): Change in accounting policies + Quantifiable impact to financial position and results
- **Effective 1 Jan 2019** (i.e. Leases): Qualitative information and where practicable, quantitative information from June 2018



Other regulators

| | |
|---|---|
|  | "...We expect detailed quantitative disclosures regarding their effects..." <i>UK FRC (Oct 2017)</i> |
|  | "...provide specific quantitative and qualitative disclosures about the application of the new standards..." <i>Europe ESMA (Oct 2017)</i> |
|  | "...disclose the impact on future financial position and results of new requirements." <i>Australia ASIC (May 2017)</i> |
|  | "...When a company does not know, or cannot reasonably estimate the expected financial statement impact , that fact should be disclosed. SEC staff expects a qualitative description effect ..." <i>Sylvia E. Alicea, US SEC (May 2017)</i> |



Higher risk of misstatements

- Impairment charge, reversal and disclosure (1)

Impairment testing – AC should:

- Ensure tests are done for all loss-making operating segment and intangible assets with indefinite useful lives?
- Review sensitivity analysis if headroom is small
- Review reliability of key assumptions via back testing and peer comparison

Reversal – AC should confirm:

- Due to real improvement in business
- Not related to goodwill (prohibited)
- Considered depreciation - carrying amount of asset is restated to net book value (had no impairment charge been recognised)



Disclosures frequently omitted:

- Revenue growth, margin and specific costs
- Whether assumptions reflect past experience or are consistent with external sources of info



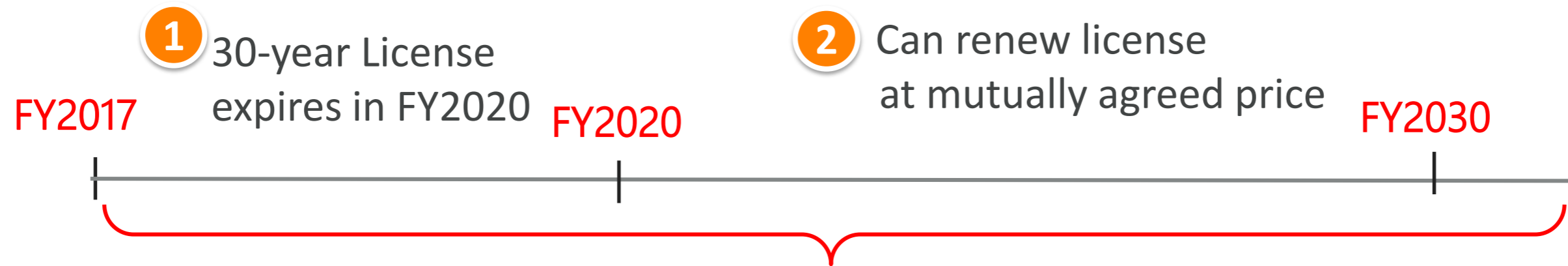
**Review Focus
for FY2017 FS**

Higher risk of misstatements - Impairment charge and its reversal (2)



Fact pattern

Company was in the business of mining crude oil. Held a mining license from Country P



1 30-year License expires in FY2020

2 Can renew license at mutually agreed price

3 Cash inflows projected to perpetuity **?** *Likelihood of renewing license?*

? *To disclose sensitivity analysis?*

If not renewed, impairment loss will be >100% of PBT

4 Cash outflows excluded renewal of mining license, as company will renew for the first time (hence can't reliably estimate the amount)?

? *Must include renewal costs*

? *Must include replacement costs of assets integral to operations*

FRSP: Collaboration with IVAS

The Institute of Valuers and Appraisers, Singapore (IVAS), is established under the umbrella of the Singapore Accountancy Commission (SAC).

- It seeks to grow Singapore into a Centre of Excellence for Business Valuation.

Why collaborate?

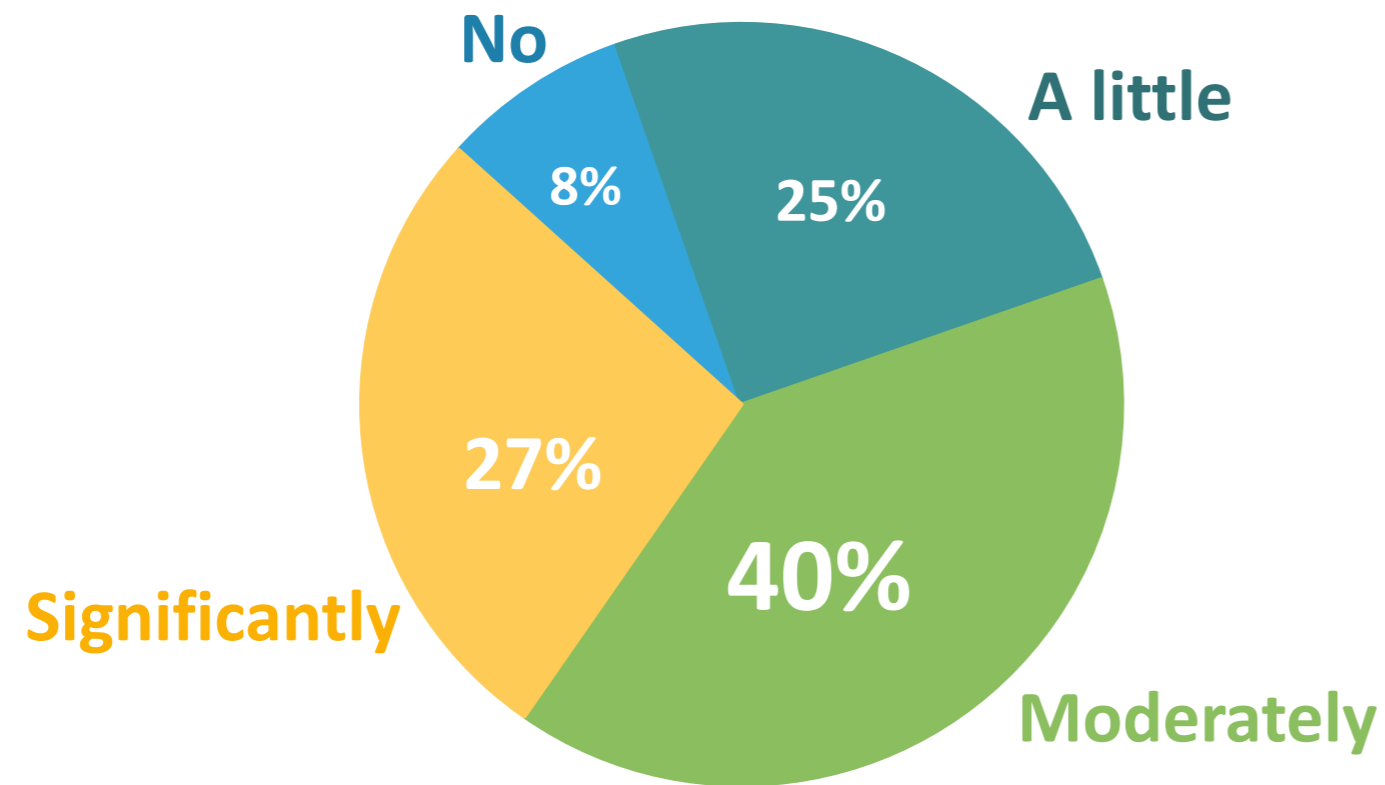
Provide an avenue for ACRA to consult with SAC-IVAS when enquiring on:

- a. business valuation
- b. impairment testing
- c. valuation of financial instruments

**Findings are still determined based on non-compliance(s)
with accounting standards, NOT valuation standards.**

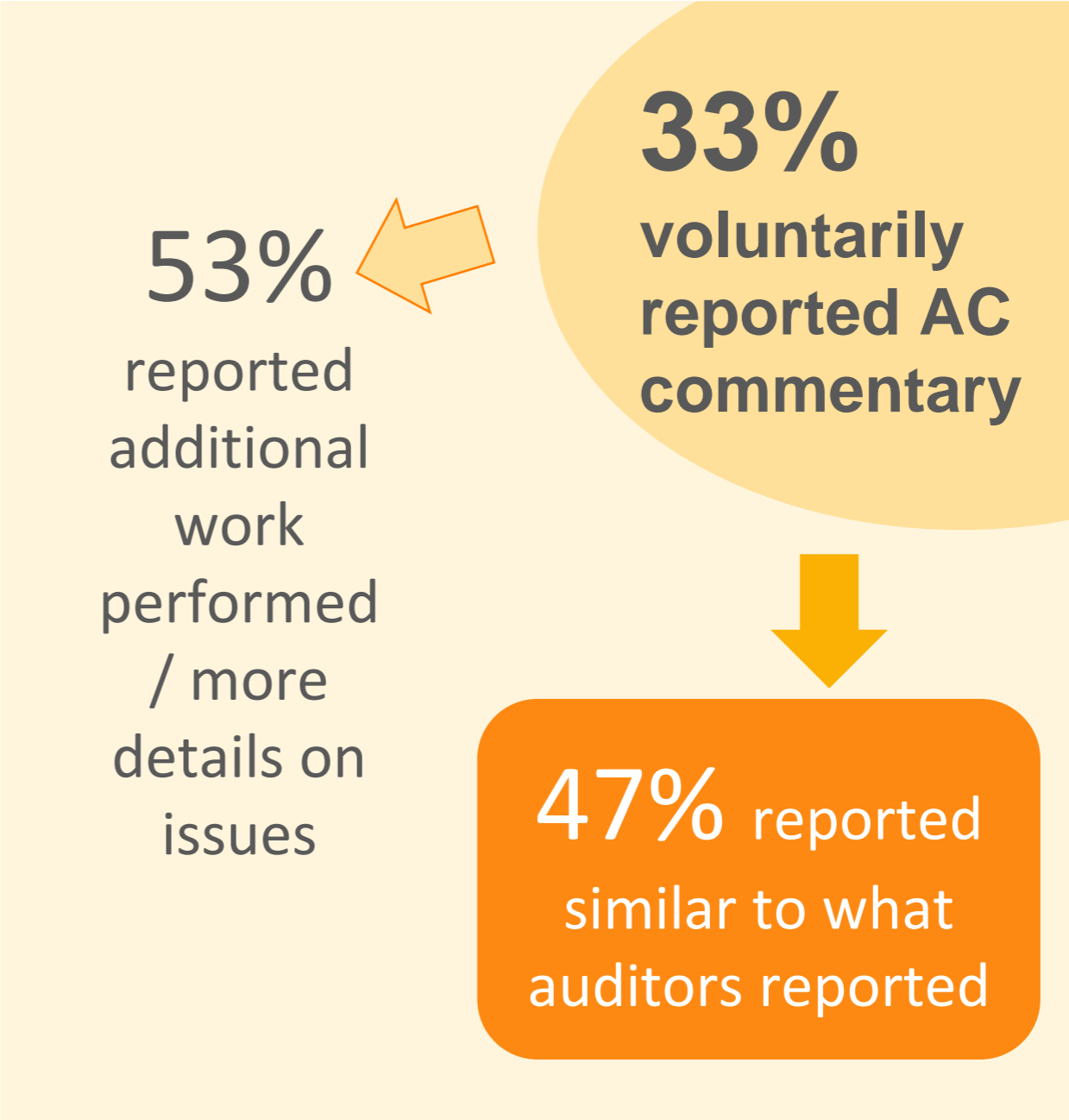
Audit Committee Commentary

Survey of 134 investors



67% said it is important that AC reports their views on key audit matters

Analysis of 180 annual reports



- 1 How AC obtained comfort over areas with critical judgements and key estimates not covered as KAMs

2.3 KAMs
(Average)

4.8 (average no of
areas with critical judgements
and significant estimates)



- 2 AC's work done to address shareholders' concerns on emerging issues

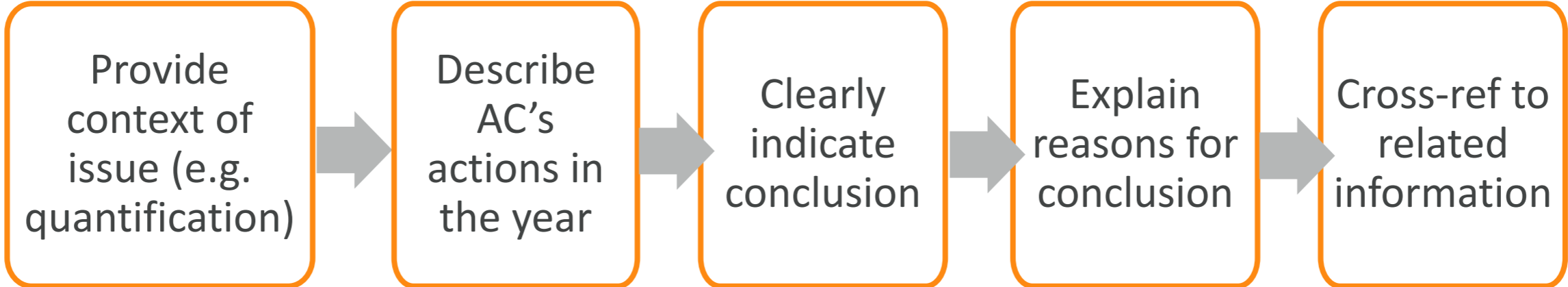
Lapses in
internal
controls

Failure
in IT
systems

Resignation
of several
directors
and C-suites

Implementation
of controls / risk
management
system of new
acquisitions

3 Consider elements of insightful AC commentaries (from UK FRC's report)



4 Highlight AC commentary and invite questions at AGMs



61%

of ACs did not experience increased investor engagement at AGMs



INVESTORS say...
KAMs helped to identify issues to raise with

Auditors

86%

Management

88%

THANK YOU

