

Regulatory Updates – 2021 Audit Committee (AC) Seminar (ACRA/SGX/SID)

On 12 Jan 2021, the annual Audit Committee Seminar for 2021 was held by ACRA, SGX RegCo and SID. In this year's seminar, the following topics were discussed:

1. ACRA Regulatory Updates (by Ms Bong Yap Kim)

- (i) ACRA's area of review focus of listed companies' FY2020 financial statements
- (ii) Addressing internal controls and audit considerations
- (iii) Tips on how to raise effectiveness of ACs

2. SGX RegCo Regulatory Update (by Ms June Sim)

- (i) Enhanced guidance for issuers to make disclosure amidst business uncertainties.
- (ii) Valuations in Interim Financial Statements
- (iii) Investigations involving issuers, directors or executive officers
- (iv) SGX RegCo's enforcement powers

3. Findings of Audit Committee of Singapore listed companies (by Professor Ho Yew Kee)

Thereafter, a panellist discussion on "Effecting Resilience in Enterprises" was shared by Mr Adrian Chan (AC Chairman of Ascendas Funds Management (S) Limited), Ms Yiong Yim Ming (Group CFO of City Developments Limited) and Ms Kathy Lai (Deputy CEO of Enterprise Singapore) and moderated by Mr Max Loh (AC Chapter Chairman of SID). The opening and closing speeches of the AC seminar were given by Mr Ong Khiaw Hong (Chief Executive of ACRA) and Mr Tan Boon Gin (CEO of SGX RegCo) respectively.

The key takeaways of the abovementioned topics are summarised below:

1. ACRA Regulatory Updates

(i) ACRA's area of review focus of listed companies' FY2020 financial statements ("FS")

ACs are expected to pay special attention to the following areas when preparing the FY2020 FS in view of the current climate:

ACRA's Areas of focus on FS	What ACRA expects from the AC	Examples of AC queries, to determine if disclosures are required (if relevant):
Areas impact by COVID-19	AC's judgments or estimates in areas impacted by the pandemic, including revenue recognition policies and estimates, and presentation of "one-off items" in the FS.	<ul style="list-style-type: none"> ▪ Are there any impact on revenue recognition policies and estimates due to changes in trade terms or modifications to customer contracts? ▪ What is the accounting treatment of loan refinancing, new trade financing and other complex instruments? ▪ Are there any exceptional or one-off items on the face of the income statements?
Going Concern	AC's assessment of the Group's ability to continue as a going concern, considering the liquidity status and financing structure of the Group.	<ul style="list-style-type: none"> ▪ Are there any liquidity crunch due to adverse business environment, e.g. slow collection of debts, denial of usual credit term by suppliers? ▪ Any difficulty in securing re-financing from banks or sourcing for alternative financing? ▪ Any breach of loan covenant that may trigger borrowings to become immediately payable? ▪ Any other event or condition that may cast significant doubt on the Group's ability to continue as a going concern?
Impairments	AC's examination of impairment tests and assumptions.	<ul style="list-style-type: none"> ▪ Any Cash Generating Units (CGU) with operating losses or poor business outlook due to changing consumption patterns? ▪ Any change in the way CGUs are categorised or in the way goodwill is allocated to the respective CGUs? ▪ How is the latest industry outlook and business model are being reflected in the cash flow forecasts used in the impairment test? ▪ How scenarios with varying outcomes are addressed in the cash flow forecasts and disclosed in the FS? ▪ How is the discount rate used in impairment test adjusted to reflect each CGU's risk profile and the general economic uncertainty?

1. ACRA Regulatory Updates (Cont'd)

ACRA's Areas of focus on FS	What ACRA expects from the AC	Examples of AC queries (if relevant), to determine if disclosures are required:
Valuations	AC's review of the valuation of investment properties and financial instruments.	<ul style="list-style-type: none"> ▪ What is the competency of professional valuer and scope of valuation? ▪ In the valuation what are the assumptions made by management? ▪ Any caveat or qualifying statements included in the valuation report that may impact auditors' opinion? ▪ Any significant decline in the assets' value after year-end that should be promptly disclosed in the FS?

(ii) Addressing internal controls and audit considerations

1. ACs are expected to evaluate the internal control environment of the issuer during the current pandemic:
 - How have remote working and other changes in business operations impacted the effectiveness of internal controls?
 - Has management entered into unusual major transactions to keep the Group afloat or deliver target results/dividends?
2. ACs should discuss with the external auditors on any changes to audit risks and key audit matters.
 - Any change to the Group's significant audit risks? If yes, what are the auditors' plan to address the changes?
 - Will auditors be relying and testing management controls?
 - What is the auditor's assessment of the company's cybersecurity risk?
 - What is the KAM to be added or changed in the auditor's report?
 - How well is the auditor performing vis-à-vis ACRA's audit quality indicators (AQIs) to deliver quality audits.

(iii) Tips on how to raise effectiveness of ACs

Have at least 2 AC members with deep accounting and auditing knowledge	Engage Experts to augment team's skillset	Build CFO and finance team's accounting and valuation knowledge
Invest time to review FS before AC meeting	Conduct "Sanity Check" on financial results	Ensure disclosures are simple and succinct

2. SGX RegCo Regulatory Update

(i) Enhanced guidance for issuers to make disclosure amidst business uncertainties.

Issuers and Boards should increase scrutiny on high-risk areas in the financial reports, and address any business updates amidst times of business uncertainty such as COVID-19. The expectations on the disclosures of issuers during COVID-19 outbreak and the various resultant government measures have been addressed in SGX RegCo's regulatory columns and covered in our regulatory updates dated [22 April 2020](#) and [27 July 2020](#), and are still applicable in the SGX guidance for FY2020 reporting.

(ii) Valuations in Interim Financial Statements

AC should take into consideration of any significant valuation uncertainties, assumptions or limitations when assessing the issuer's property valuations, and question the management's decision whenever necessary. Details on the enhanced regulatory regime for property valuation can be found in SAC's regulatory update dated 15 January 2021. (Please click [here](#))

(iii) Investigations involving issuers, directors or executive officers

SGX RegCo has highlighted several areas to be disclosed when the issuers are notified of investigation involving the issuer, its directors or executive officers. The details of the update on investigation disclosure can be found in SAC's regulatory update. The disclosures are also relevant where the director is seeking re-appointment or appointment in another issuer.

(iv) SGX RegCo's enforcement powers

SGX RegCo has published on 6 August 2020 its consultation paper on Enhancements to Enforcement Framework and in the midst of reviewing the feedbacks from the public. Purpose of the enhancement to the enforcement framework is for greater and quicker accountability and clarity. Professionals who do not fulfil the expected industry standards will be referred to the relevant bodies by SGX.

3. A Summary of Findings from the Study of AC of Listed Companies in Singapore 2020

The study was conducted by the SID to 650 listed companies in Singapore, comprising a total of 2,129 AC members. The results of the study provide insights to issuers on the current practices adopted by listed companies as well as the trend of AC composition and competencies. A summary of the results is shown below:

Decreasing trend of “busy” directors	Compared to previous studies, the 2020 results has shown a decrease in “busy” AC members (including Chairmen) who hold 4 or more directorships concurrently.
Progress in gender diversity	The percentage of female AC members has increased from 7.6% in 2015 to 11.1% in 2020, and is expected to reach 15% in 2025 based on the current trend.
Increasing size of ACs	Out of 650 listed companies that participated in the 2020 study, 24.6% of them (160 companies) have ACs with 4 or more members, compared to 21.6% in the 2015 study. It is required under Companies Act and CG Code 2018 for AC to have at least 3 members
Composition of ACs	The percentage of independent directors in ACs has seen an increase from the studies conducted in 2011 and 2015. CG Code 2018 Provision 10.2 requires all AC members to be non-executive directors
Requirement of deep accounting / auditing expertise	Having accounting / auditing expertise has been voted as the top attribute of an effective AC by the companies participated in the 2020 study. However, there is a decrease in the percentage of companies having 2 or more financially-trained AC members from 2015 study.
Increasing long tenure AC members (9-year rule)	Out of 2,129 listed companies, 32.3% of the AC members have a tenure longer than 9 years.
Increasing AC scope of work	On the survey question regarding the workload of AC, 69.8% of the participants are of the view that AC is taking on responsibilities beyond the scope of what is expected, and 42.8% of them feel that there is dilution of the AC’s work on financial reporting.
Key Audit Matters (KAMs)	There are 83.5% of the participated listed companies having 1-3 Key Audit Matters (“KAM”), and the most common topic reported in KAM is regarding valuation matters (e.g. Fair Value).
Digitalisation and Covid-19	In light of the COVID-19 pandemic, the participants of the study have given an average score of 3.8 out of 5 for the importance of digital tools and an average score of 3.3 out of 5 for their level of concerns towards the risks arising from digitalisation. The study has shown that the pandemic has increased the amount of effort the AC has placed on ensuring that internal controls remain adequate and efficient (e.g. more frequent checks to ensure no management override of controls).

Useful References:

7th annual Audit Committee Seminar jointly organised by ACRA, Singapore Exchange (SGX) and the Singapore Institute of Directors (SID) on 12 Jan 2021
<https://www.acra.gov.sg/training-and-resources/useful-resources/acra-sgx-sid-audit-committee-seminar-2021>

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