

Audit And Risk Committee Seminar 2025

Elevating Shareholder Value With Good Governance

22 January 2025



Opening Address

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ACRA regulatory updates

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FRSP Highlights

Overview of the FRSP



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

 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



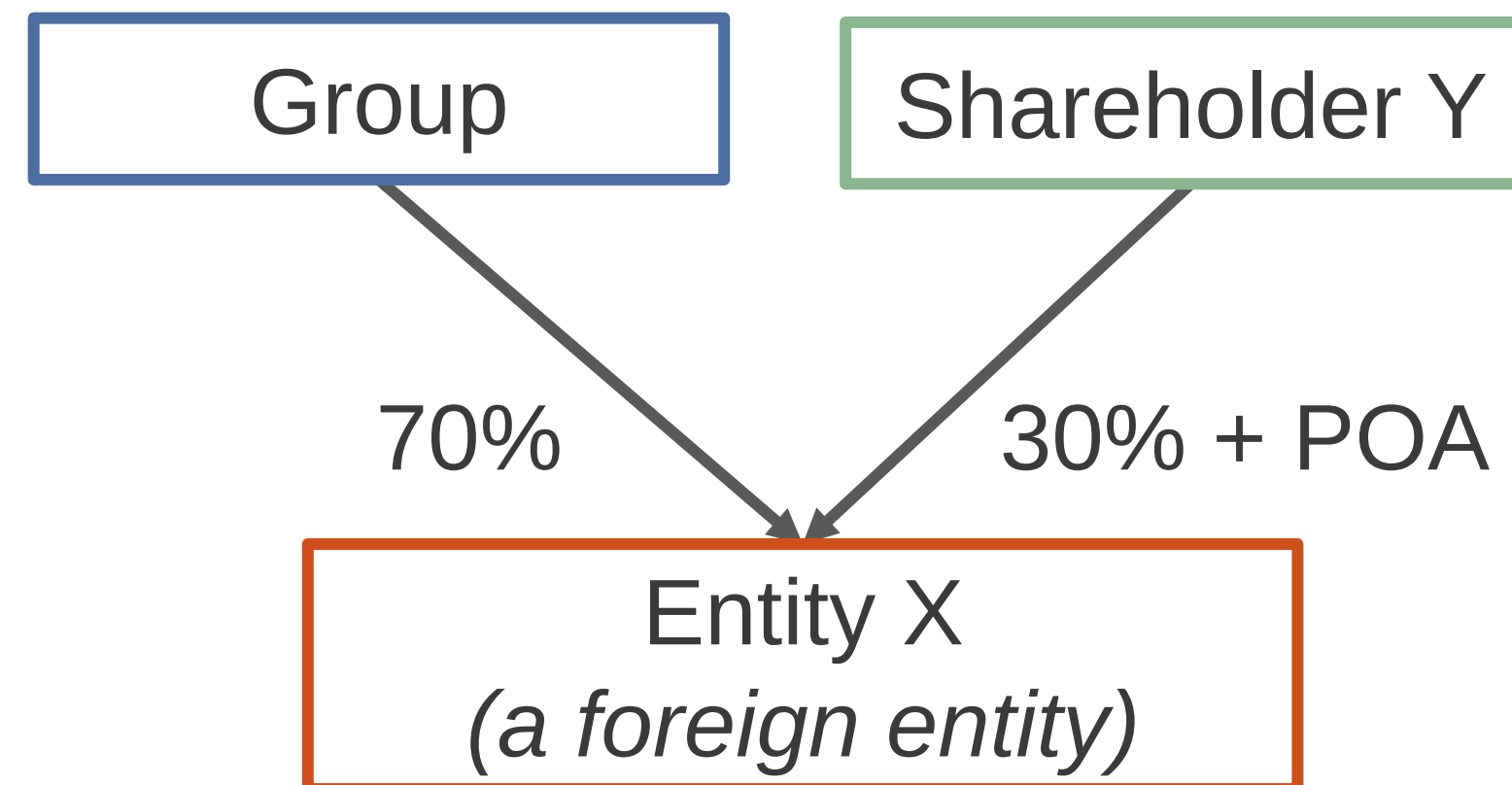
Fact Patterns

FY20X1

- 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.

FY20X5

- 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?



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.



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





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.



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



Internal assumptions more aggressive than 1st expert's view



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



Unchanged discount rate despite more aggressive assumptions

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.



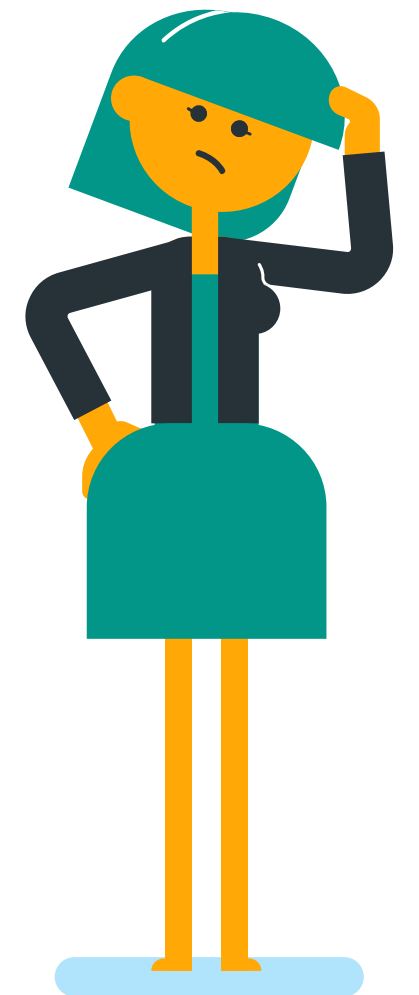
A 0.8% higher discount rate would result in impairment

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.





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



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



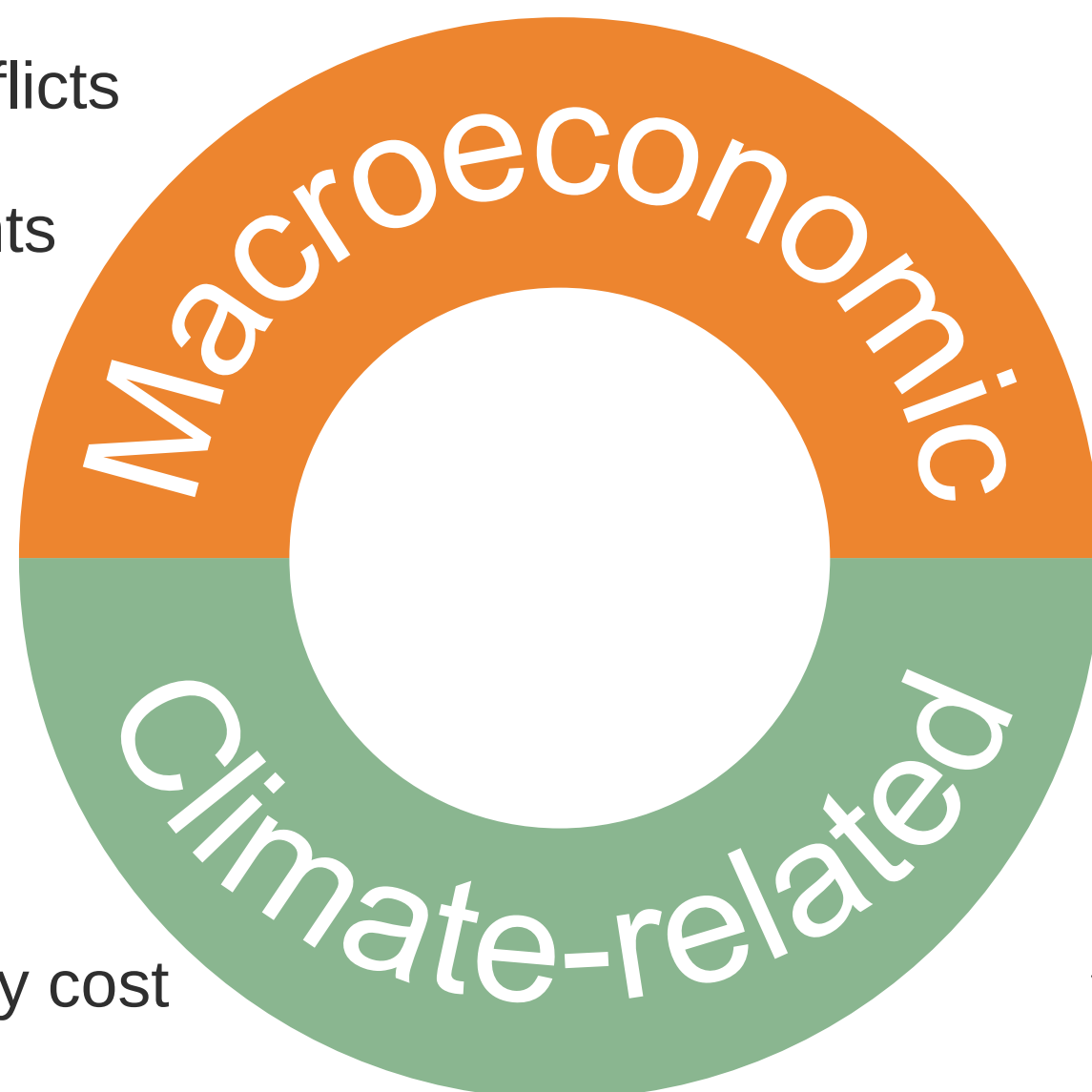
Considerations

- 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

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*

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
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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!